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## **China**

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# China

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## CENTRAL EURASIA

**Discussion of Sino-Russian Relations, Prospects**  
94CM0342A Beijing XIANDAI GUOJI GUANXI  
(CONTEMPORARY INTERNATIONAL RELATIONS)  
in Chinese No 4, 20 Apr 94 pp 28-30

[Article by Chen Feng (7115 6912): "Current Conditions and Future Prospects of Sino-Russian Relations"]

[Text] Since the collapse of the Soviet Union, relations between its successor, the Russian Commonwealth, and China have been severely tested. Fortunately, the Chinese and Russian leaders have put a firm grip on the strategic situation as a whole and have been making correct decisions based on reality and on fundamental national interests, and they have taken positive and practical steps to make a smooth transition from Sino-Soviet relations to Sino-Russian relations. There has been no disturbance or setback in the two countries' relations; instead new progress has been made.

### I

China and Russia differ in ideologies, value concepts, forms of system, and development paths, but these have not prevented the two countries from striving to foster and develop normal, friendly, and cordial relations. Both sides have learned from their tortuous experience: China and the Soviet Union were once allies because of their ideological similarities and adversaries because of their ideological differences. Today, both are determined to forge a new, constructive, and stable partnership based on the five principles of peaceful coexistence that stems from their respective immediate political and economic interests and from global strategic interests.

**1. The two sides consulted each other as equals to determine the basic principles for handling their relationship.** On December 18, 1992 the two countries issued the "Joint Declaration on the Basis of the Relationship Between the PRC and the Russian Commonwealth." It stipulated that the two countries "shall treat each other as friendly nations and shall abide by the United Nation's charter and comply with the principles of mutual respect and territorial integrity, mutual non-aggression, non-interference in each other's internal politics, equality and mutual benefit, peaceful coexistence and other recognized international laws and principles to develop a good-neighborly, friendly, and mutually beneficial cooperative relationship," and "both sides emphasize that the rights of each other's citizens to freely choose their own country's path of development should be respected, and differences in their social systems and ideologies should not hinder the normal development of the two countries' relationship," and "neither side shall join any kind of military or political alliance against the other or enter into any kind of treaty or accord with a third nation that infringes on the other nation's sovereignty or security and interests or allow a third nation to use its territory to infringe on the other's sovereignty and

security and interests." Thus the relationship between the two countries is not confrontational, nor has an alliance been forged; rather, it is a new kind of relationship based on the five principles of peaceful coexistence and is neighborly and friendly, mutually beneficial and cooperative.

**2. Continuous high-level contact is being maintained; both sides are attaching great importance to taking the initiative to promote Sino-Russian relations.** After Russia's independence, the Chinese Government immediately dispatched the then MOFERT minister, Li Lanqing, to head an official Chinese delegation to Moscow and signed the "Summary of Sino-Russian Talks." At the end of January 1992, Premier Li Peng and President Yeltsin met at the United Nations, and they reiterated the need to further develop the good-neighborly, friendly, cooperative relations between China and Russia. In December 1992, President Yeltsin personally led a delegation to China, and the two sides issued the above-mentioned "Joint Declaration on the Basis of Sino-Russian Relations" and signed 24 agreements pertaining to economic and trade, technological, and cultural cooperations, thus laying a firm foundation for the development of their relationship. In the last two years or so, the two countries' vice premiers and foreign ministers and other high-ranking officials have exchanged frequent visits, and the leaders have corresponded on some important matters. These highly successful visits and high-level contacts have fostered mutual understanding, encouraged cooperation, and promoted the development of the two countries' relationship.

**3. The two armies have established normal contacts and have entered into military and technological cooperations.** Chinese Central Military Commission vice chairman, Liu Huaqing, as well as the minister of national defense and the chief of general staff and other military leaders have visited Moscow, and Russian Defense Minister Grachev has visited China in return. The two sides have exchanged ideas on strengthening military contacts and fostering military and technological cooperations not directed against any third nation. Defense departments of the two sides have signed an agreement of cooperation which included the exchange of personnel and business experiences. The Russian General Staff Academy and China's Military Science Academy have also reached an agreement to exchange visitors; Russia will continue to accept Chinese military experts to study at the Krasnodar Aviation School. Furthermore, Russia's Pacific fleet visited Qingdao for the first time, and Chinese and Russian naval officers and men toured each other's vessels and took part in some social activities.

**4. The border between the two countries is becoming a peaceful, friendly border.** Toward the last days of the Soviet Union, China and the Soviet Union had reached consensus on over 90 percent of the border area. When Sino-Russian talks resumed, the two sides adhered to the original principles and quickly reached an agreement on the eastern front. The supreme legislative organs on both

sides have given their approval and have exchanged instruments of ratification. As for the western front, China is meeting with the joint delegation representing Russia, Kazakhstan, Kyrgyzstan, and Tajikstan and is entering into fair negotiations based on mutual understanding and compromise and in a positive and practical spirit, and good progress is being made. Meanwhile, border survey work on the eastern and western fronts is keeping up at a normal pace. China and Russia have also conducted several rounds of talks on frontier arms reduction and on strengthening mutual trust on military matters. Contacts between the frontier forces on both sides have clearly increased; mutual trust and understanding have been further strengthened.

**5. Economic and trade relations are developing at a rapid pace, reaching new heights.** Upon its independence, Russia immediately announced that it would continue to honor all economic and trade agreements, accords, and contracts between the former Soviet Union and China and also expressed the desire to further expand its contacts with China on those bases. In August 1992, vice premier Tian Jiyun visited Moscow to take part in the Sino-Russian Economic and Trade Technology Mixed Committee Meeting. The two governments formulated a series of policies and measures to promote Sino-Russian economic cooperations, laying a good foundation for strengthening economic and trade cooperations between the two countries.

**a) Bilateral trade volume has greatly increased; local trade and frontier trade have undergone rapid development.** In 1992, Sino-Russian bilateral frontier trade was worth \$5.85 billion, with frontier trade accounting for about \$2 billion. In 1993, bilateral trade topped \$7.7 billion—with frontier trade accounting for \$2.5 billion—setting a historical record for Sino-Soviet and Sino-Russian trade. Changes in economic and trade relations between the two countries have occurred in five areas: Instead of implementing the trade agreements signed between the two central governments, localities and enterprises are directly entering into negotiations and signing their own economic and trade contracts; instead of local frontier trade, economic and trade activities are being launched in the two countries' hinterlands and frontiers at the same time; instead of concentrating on barter trade, barter trade and spot exchange trade are being emphasized; instead of supplying mainly steel materials, lumber, aluminum, and chemical fertilizers, Russia is reciprocating with a large variety of commodities; instead of focusing on trade, trade and economic cooperation are being emphasized.

**b) Economic cooperation is taking many forms and is maintaining a good momentum.** Since 1992, despite Russia's political turmoil, economic slump, and serious inflation problems, Sino-Russian economic cooperations—including the setting up of joint venture enterprises, leasing and contracting, exchange of science and technologies and talents, and dispatch of labor and service personnel—have maintained an active growth

trend. Based on incomplete data, since 1992, the two sides have signed labor management contracts on 613 projects worth \$1.04 billion; \$177 million's worth of business has been completed, and 160 million people have been sent abroad. There are 347 joint ventures, wholly Chinese-owned enterprises, and cooperative ventures in Russia and the other CIS states; bilateral agreements on investments are worth hundreds of millions in US dollars. Russia and the other CIS states and China have set up 318 joint venture enterprises in Heilongjiang alone.

## II

There is tremendous potential and vast prospects for the further development of Sino-Russian relationship. In view of the fact that both countries are concentrating their efforts on economic reform and construction and both require an environment of lasting stability and must give play to their respective advantages and play down their own shortcomings and strengthen cooperation, there are strong bases for the two to reinforce and develop their good-neighborly and friendly relations. Both are great nations in the Asian Pacific and in the world. Fostering cordial and friendly cooperation will necessarily have a positive effect on peace in the Asian Pacific and in the world.

**1. Politically, the two countries are forging a long-term, neighborly, and friendly relationship geared to the 21st century.** On January 24 of this year, President Yeltsin wrote to Chairman Jiang Zemin expressing the Russian leader's "determination to follow the line of developing friendly and good-neighborly relations with his great neighboring country" and "to raise the relationship between the two countries to the level of a constructive partnership geared to the 21st century." No doubt the Chinese side sincerely shares the same hope. Since the end of last year, the Russian political situation has changed somewhat, and its foreign policies have also been readjusted, but when Russian Foreign Minister Kozyrev visited China at the end of January, he still maintained that Russia's internal political changes would not affect Russian-Chinese relations and reiterated that Russian-Chinese relations were still a "priority in Russian diplomacy." Russian Prime Minister Chernomyrdin will pay a formal visit to China later this year; Chinese leaders will also be paying friendly visits to Russia. Thus, Sino-Russian relations will continue to rise to new heights in the future.

**2. Economically, the two countries are broadening and deepening the mutually beneficial cooperative relationship.** There are many factors favorable to developing Sino-Russian bilateral cooperations. For example, both China and Russia have changed their former, highly centralized foreign trade management system and have implemented policies of opening up to the outside world; they both have exceptional geographic advantages, and the relatively short distance between the two keeps transportation and communication costs down; the two

countries' industrial structures, product mixes, and resources supplement each other's needs very well. China's foodstuff, light and textile goods, electronics, and household electrical appliances are what the Russians urgently need, and compared to Western goods, they are better suited in terms of price as well as practicality. Russia's large-scale machinery and electrical products and certain kinds of state-of-the-art technologies are also what China needs. Russia is rich in natural resources, but it needs labor and capital to develop them, and China is rich in labor and some of its enterprises have the funds, which makes labor cooperation a possibility. This ability to supplement each other is an important condition for the long-term development of a mutually beneficial economic cooperation. There is no denying that Sino-Russian economic cooperation also faces many difficulties and obstacles. For example, Russia is macroeconomically unstable; its foreign economic laws and regulations are changeable, forcing Chinese enterprises to take big risks and undermining their confidence in the cooperation. Last July, Russia announced some new currency reform measures, and the Chinese side incurred large losses as a result. Some business managers on both sides are too eager for quick success and immediate profit; they resort to short-sighted behavior, and management order is lacking. There is a mixed-breed of frontier merchants on both sides—a jumble of fish and dragons. Some resell inferior goods, which not only hurts the Russian consumers but also damages the reputation of Chinese products. In addition, transportation and communication "bottlenecks" have always hampered the smooth process of trade between the two countries. But what is important is that both sides are paying close attention to overcoming the negative factors and stressing the positive conditions. For example, the two countries have decided to work hard on strengthening their cooperation over railway works. This project alone will double rail transport volume by 1995, increasing annual trade volume to \$8.5 to \$10 billion as a result. As another example, recently the two aerospace administrations signed a cooperation agreement on space research and its peaceful use, and Russia has shown interests in taking part in the Three Gorges construction project. These will expand the economic cooperation between the two countries to the high-tech realm and to the domain of large-scale economic construction projects. People have also noticed that there are many possibilities for the Tumen Jiang development and northeastern Asian cooperation projects, and the two countries' bilateral cooperations can be linked to other multilateral cooperations.

**3. Diplomatically, the two countries are increasing consultation and working hard for peace and stability in Asia and in the world. Both China and Russia believe that at the end of the bipolar setup, the world is not heading**

toward a single-pole but is heading toward multipolarization. Both countries are permanent members of the UN Security Council and have important responsibilities in maintaining international peace and security and should increase consultation and cooperation. Both sides have reiterated in the "Joint Declaration" that "the two countries will not seek hegemony in Asia, the Asian Pacific region, or any other part of the world and will oppose hegemonism and power politics in any form"; both sides will "oppose any kind of arms race" and "will adopt measures to strengthen the nuclear nonproliferation system and prevent the spread of other kinds of weapon that inflict massive casualties." Both sides have indicated that "under no circumstance will either country be the first to use nuclear weapon, and neither will use or threaten to use nuclear weapon against a nuclear-free nation or nuclear-free zone" and that they "will increase bilateral discussions on international issues; consultation shall include such topics as strengthening peace and security, developing cooperative relations in Asia and in the world, and finding solutions for important global and regional problems and other issues of interest to both sides," and "both sides shall work hard to promote peace, security, stability, and prosperity in the Asian Pacific region and facilitate the implementation of bilateral and multilateral plans that promote mutual understanding and economic development in the northeastern Asian region." To these ends, the two countries' foreign ministers have signed a foreign ministry consultation protocol.

In addition, looking ahead into the future of Sino-Russian relations, people cannot help but notice certain problems. For example, pandering to extreme nationalism, some Russian politicians are making noises about China's "threat" to Russia and are advocating establishing formal relations with Taiwan, including inviting Lee Teng-hui to visit Russia and so on. The Chinese Government is the sole legitimate government representing the whole China. Taiwan is an inseparable part of China's territory. The Russian Government has acknowledged this point in the "Joint Declaration." People believe that Russia will honor its promise that "Russia will not establish official relations or have official contacts with Taiwan" and that "economic, technological, and cultural relations between Russia and Taiwan shall be conducted on an unofficial basis."

Summing up the above, the future of Sino-Russian relations is good. So long as the two sides strengthen their trust, consult each other more often, seek common ground while reserving differences, pursue what is beneficial and avoid what is harmful, handle various conflicts properly, and diligently eliminate all sorts of obstacles, Sino-Russian relations can develop in a steady, sustained, and healthy way and produce a even more positive effect on peace and stability in the world and in the Asian Pacific region.

## NORTHEAST ASIA

### Discussion of Japanese Politics, Foreign Policy

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in Chinese No 6, 20 Jun 94 pp 6-10

[Article by Liu Jiangyong (0491 3068 3057): "Japanese Politics and Hata's Diplomatic Alignment"]

[Excerpt] [passage omitted]

### II. The Current New Order in Japanese Political Circles

Since the Hata cabinet was formed on 28 April 1994, the Socialist Party [SP] has stepped down, bringing a new order of change to Japanese politics:

#### While the Hata Cabinet Is a Multiparty Coalition Administration, It Has Substantive Structural Differences with the Hosokawa Cabinet, Having Formed a Political Structure Dominated by the New Life Party

Only four members of the Hata cabinet are holdovers from the Hosokawa cabinet. By party affiliation, of the 21 positions including the prime minister, the New Life Party [NLP] has eight, three more than in the Hosokawa cabinet, an NLP ally, the Gongming [0361 2494] [Open] Party [OP], has six, and the Democratic Socialist Party [DSP] with policy inclinations close to the NLP has three, with the New Party [NP], Liberal Party [LP], Reform Association [RA], and private figures having one each. Ten of the key cabinet officials were key Liberal Democratic Party [LDP] members a year ago, such as Chief Cabinet Secretary Xiong Guhong [3574 6253 1738] (former LDP deputy secretary in chief), Minister of Foreign Affairs Shize Hongzhi [2636 3419 1738 3112] (former LDP-cabinet deputy minister of foreign and government affairs), Treasury Minister Tengjing Yujiu [5671 0064 5940 0036] (former LDP minister of labor), Minister of Farming Forestry, and Aquatic Products Jiateng Liuyue [0502 5671 0362 2588] (former LDP policy adjustment commission chief), Autonomous Minister Shi Jingyi [4258 0064 0001] (former LDP international bureau chief), and Director General of Hokkaido and the Okinawa Development Agency Zuteng Liangshou [0146 5671 5328 1343] (former LDP general affairs deputy chief). So it is not unjustified for the SP to claim that the Hata cabinet is a coalition administration formed of "LDP dropouts."

#### With the Multiparty Coalition Government Changed in the Diet From a Majority to a Minority Faction, Japanese Politics Is Seeing a New "Three-Level" Structure Within a Setting of Many Political Parties

While the Hosokawa coalition administration had a majority of the seats in the Diet, contradictions within the ruling party gradually grew, to present a mutually antagonistic "two-level structure": Parties, such as the NP as the chief party, and the SP, formed one level; the

NLP and OP attempted to jointly organize a "New NP," pulling in the NP, thus forming a "second level." Adding this to the out-of-office LDP put Japanese politics into a "three-level" tripartite state.

After the SP withdrew from the coalition government, although the LP that had recently split off from the LDP joined the Hata coalition administration, the ruling party still had less than half of the seats in the Diet, or only 187, while out-of-power forces, such as the SP, had 295 seats, making this the first time that a minority party was in power in the 39 years since the Jiushan [7682 1472] cabinet. So the Hata-cabinet decisionmaking was going to be subject to greater Diet restriction, unable to continue doing things in the old way. Meanwhile, Japanese politics saws certain new changes: 1. The prestige of the once quite reputable NP reached rock bottom, leaving a question as to whether Hosokawa could keep his position as head of his party; 2. The emergence of minor parties, such as the "LP," and the "New Party Future [NPF]," showed that the LDP was subject to possible further division at times of great political turbulence, with certain legislative assembly members leaving the party to acquire the opportunity to rule, which trend might eventually even result in the LDP changing its name. LDP figures, such as Jiateng Hongyi, Shan Qituo [1472 1505 2148], and Xiaoquan Chunyilang [1420 3123 4783 0001 6745], had established on 16 May 1994 a new policy group—"New Century [NC]," announcing that they were joining up with all anti-NLP forces, with over 50 members of the House of Representatives having now joined this group. 3. While Japanese politics now involves many parties, the key roles are still played by the "three levels," with the "Reform New" formed by the ruling-party coalition being "one level," and the now out-of-power LDP and SP being the other "two levels."

#### The Struggle in the "Three-Level" Tripartite Structure of Japanese Politics Is Complex, With the Current Major Conflict Having Shifted From That Between the LDP and Non-LDP Forces to a Test of Strength Between the Minority Ruling Party and the Majority Out-of-Power Parties, Focused on Whether To Demand That the Hata Cabinet Resign or the House of Representatives Be Dissolved and a General Election Be Held

While the out-of-power LDP and SP always differed on policy, they are both now out of office, with the power having devolved to the NLP and what used to be called the "middle-way political parties." Recently, under strong demand by the left faction in the SP, the SP has stated that if the Hata cabinet is reorganized, the SP is willing to join it again, in an attempt to keep the LDP from taking advantage of the collapse of the Hata cabinet to get back into office. On 29 May 1994, the SP Central Committee set an "election policy," demanding that unless the Hata cabinet collectively resigns on its own, after which the SP will return to the multiparty coalition to jointly form a new coalition government, the SP will call for the dissolution of the House of Representatives

and new general elections. While views differ in the SP on how to form a new cabinet, SP Secretary Changjiu Baogen [7022 0036 0202 8017] states that "the SP will not establish a coalition government with the LDP." If the Hata cabinet collectively resigns, the SP might cooperate again with non-LDP forces, striving for a redistribution of power within a multiparty coalition government. At which time, if the SP left faction opposes, this might cause a split in the party.

One of the LDP's tactics is to seize on NLP Secretary-in-Chief Xiaoze Yilang's [1420 3419 0001 6745] hard-line statements and "power style," concentrating their firepower on exposing Xiaoze's past misdeeds to turn the focus of the Japanese political struggle "against Xiaoze," which might split the ruling party, as well as being a drastic way to deal with the Hata regime. The LDP has stated that once the Diet passes the budget in June, it will bring a vote of no confidence against the Hata cabinet, calling for its collective resignation or general elections. So the political future of the Hata cabinet is on thin ice. A public opinion poll published in the 11 May 1994 issue of the Japanese ZHAORI XINWEN [2600 2480 2450 5113] found that the Hata cabinet's support was at 47 percent, far lower than the high 71-percent support for the Hosokawa cabinet when it was first formed.

Within this setting, Hata has been full of a sense of crisis since he took office, painstakingly taking a humble stance. In domestic affairs, he has emphasized carrying on the reforms, preserving coordination, striving for stability, keeping mistakes to a minimum, and avoiding conflict, to keep from giving opponents any handles. On 10 May 1994, he called in an administration speech for "taking over the reform flag, getting a tight hold on it, and raising it high," while "always remembering to emphasize the addition of coordination to reform for a government of reform plus coordination," in an attempt to ease conflicts with the SP, to minimize the possible negative impact of the SP's withdrawal from the coalition government. The NLP is also likely to take advantage of matters, such as the deliberations over dividing up election districts according to the "proportional system of representation for small election districts," splitting the LDP, and drawing in the SP. As the NLP's greatest current political opponent and threat is the LDP, a coalition of the SP with the LDP would cause worries about the NLP being forced out of power. As to tax reform, to keep the out-of-power parties from launching an attack, Hata is prepared for the parties both in and out of office to jointly set up a "tax-reform coordinating committee," to draw up a tax-reform plan together, assimilating as much as possible the views of the out-of-power parties. Hata is planning during his tenure to complete economic, administrative, fiscal, and tax reforms, to put the Japanese economy officially onto a track of recovery, on which grounds he will complete as soon as possible the designation of electoral districts for the House of Representatives, in an attempt to meet the next elections under the new electoral system. In light of SP demands for the Hata cabinet to "resign voluntarily,"

the NLP holds that as long as the SP returns to the coalition government, for the joint establishment of a "stable majority-faction regime," it will consider SP suggestions. But this would make it hard to work with the OP, as the OP now has quite a few cabinet officials in the Hata cabinet, so that SP reentry would be bound to put the squeeze on OP vested interests. So it appears that while old conflicts have not yet been resolved, new ones are brewing.

### III. The Basic Leanings of the Hata Foreign Policy

While the Hata cabinet is weak in position, it has grand diplomatic ambitions, attempting to "establish an active foreign policy aimed at trust and coordination," and "launching a foreign policy rich in initiative and creativity," in an effort to bring Japan's great-nation role into play internationally. This can be seen mainly in the following three areas:

As to relations with the United States, the Hata cabinet emphasizes that Japan and the U.S. need to find ways to rebuild relations of bilateral trust. The Ministry of Foreign Affairs notes that Japanese-U.S. economic differences absolutely should not have a bad impact on political and security relations. While the Cold War is over, Russia and China still have nuclear weapons, and there is also the matter of North Korea's nuclear development. As the military standoff on the Korean Peninsula remains, and the South China Sea sovereignty-dispute remains a potential source of conflict, Japan needs to keep the U.S. military stationed at Japanese bases, as well as providing the United States with the relevant financing. As Japan and the United States have restarted their economic and trade talks, Japan is going to push forward with domestic economic reforms, establishing an open-market, domestic-demand-guided economy focused on easing restrictions, to resolve Japanese-U.S. trade friction, and strengthen Japanese-U.S. relations.

As to relations with Europe, the first diplomatic step taken by Hata was, based on the schedule preset by the Ministry of Foreign Affairs, to visit the four European countries of Germany, France, Italy, and Belgium. His key objectives were: 1) to establish his international reputation, to show that Japanese politics would not influence Japanese foreign policy; 2) to establish a new international order, for a joint coordination in advance with Europe on the holding of the 1994 meeting of the heads of state of the developed nations; 3) to strive for the support of all countries for Japan to become a permanent member of the [UN] Security Council; 4) through strengthening Japanese-European political relations, to reverse the relatively weak position of Japan in tripartite Japanese-U.S.-European relations, improving its position of strength with the United States; 5) to pave the way economically for in-depth Japanese access to the unified European market.

As to relations with the Asia-Pacific countries, Hata favors examining history, striving for the trust of all

**countries, to help Japan play its great-nation role.** While Hata's approach to historical matters is not identical to Hosokawa's, he still states that Japan needs to "re-acknowledge the unbearable pain and grief caused to so many by Japanese actions, such as aggression and colonial rule and, while passing this knowledge on to future generations, grounded in thorough self-questioning, to strive actively to create peace and build a bright future for the Asia-Pacific region." But while the Hata cabinet still had an unstable footing, Minister of Justice Yongye Maomen [3057 6851 5399 7024] blurted out that "the Nanjing Massacre was a trumped-up charge." This completely violated Hata's basic intent on striving for the trust of Asian countries. So Prime Minister Hata quickly pointed out that Yongye's words were improper, as well as personally sending letters to and phoning the Chinese and South Korean heads of state to apologize, showing the strong desire of the Hata cabinet to preserve stable relations with China and South Korea.

As to the nuclear inspections on the Korean Peninsula, Japan has taken countermeasures at two levels or in two stages. The first level has been a dialogue or coordination stage, in which Japan has tried to keep from over-isolating North Korea, consulting with neighboring countries, such as the United States, China, and South Korea, in an utmost effort to keep the Korean Peninsula nuclear-free through political dialogue. The second level has been a sanctions and pressure stage, in which if the North Korean nuclear matter intensifies or the UN makes the pertinent resolution, Japan will help the United States to take steps against North Korea, strengthening Japanese-U.S. and Japanese-South Korean cooperation, to cope with an emergency situation.

As to initiating "creative diplomacy," the Hata cabinet is focused mainly on establishing a new international structure or order. **The Japanese Government holds that 1995 will be a crucial year of opportunities for Japanese diplomacy**, which must be seized. 1) That year, 1995, will be the 50th anniversary of the end of World War II, as well as the 30th anniversary of the establishment of Japanese-South Korean relations. Japan intends to declare that it will pass on this historical lesson to future generations, to show the moral stand of Japanese diplomacy. 2) That year, 1995, will also be the 50th anniversary of the atomic bombing of Hiroshima and Nagasaki. As the only country in the world to have been bombed with an atomic bomb, Japan plans to play a dominant role in the areas of preventing nuclear proliferation and promoting nuclear disarmament. 3) That year, 1995, is the 50th anniversary of the founding of the United Nations. Japan will declare ways to strengthen the post-Cold War UN, as well as striving to become a permanent member of the Security Council. Japan's law on cooperation in UN peacekeeping, after being in effect for three years, will be reevaluated in 1995, for a coordinated study in relation to the abovementioned matters. 4) That year, 1995, will be one of reevaluating the Japanese-U.S. talks on economic structure, as well as one of special accord

between Japan and the United States on sharing military costs. Japanese and U.S. responsibilities are to reinforce cooperative relations all the way from economics and trade to politics and security. 5) In 1995, APEC will hold its ministerial and heads-of-state conference in Japan. This will be an excellent opportunity for Japan to take an active stance in the Asia-Pacific region. Japan will display a spirit of initiative in all areas, to help raise its trust among all Asia-Pacific countries.

**It should be noted that in the 1990s, when Japanese politics are sharply turbulent, divisive, and in the midst of reorganization, a "neonationalist" ideological trend is lifting its head in Japan.** Those involved in this are trying to control state power, to thoroughly remake postwar Japan, thus guiding Japan onto a new path of development.

The Japanese media holds that one of the leading exponents of this ideological trend is NLP Secretary-in-Chief Xiaoze Yilang. In May 1993, the Japanese Kodansha published in Xiaoze Yilang's name a sensational best-seller in Japan, *Plan for Remaking Japan*, which was reprinted 15 times in the next six months. This book could be called Xiaoze's political manifesto. Xiaoze notes that Japan needs to act through the UN, to become an "ordinary country" that can send troops abroad and take part in international conflicts just like the United States, Britain, and France. He suggests adding a Section 3 to the Japanese Constitution following Article 9, Section 2, the substance of which is that Japan could "possess self-defense forces aimed at peacemaking, as well as an international joint mobile force that would operate at the invitation and under the command of the UN." He holds that Japan ought to break free from the early postwar Jitien [0679 3944] line of "deemphasizing military preparedness to give priority to economic development," so that Japan can play a role in the international military arena. Xiaoze's new international order is one of further "militarization" of UN activities, including organizational militarization (the establishment of a UN army), and the militarization of methods of resolving international disputes. In the course of strengthening UN collective security functions, the United States would dominate, with active Japanese participation, further strengthening Japan's military and nonmilitary capabilities, changing Japan's "exclusively defensive" policy to a dynamic "peacekeeping strategy," and "launching international actions centered on the U.S.-Japanese security treaty," so that the Japanese-U.S. security system could also become a "force to curb conflict in the Asia-Pacific region." In fact, while enabling Japan to join in the joint preservation of the U.S. role of "world cop," through the "militarization" of UN actions, this would open a channel for Japan to intervene militarily in international matters, creating the external terms for Japan to strengthen its military force, and giving its self-defense forces the capability to use force. While Xiaoze states that Japan ought to correctly acknowledge its history, holding that "it is an undeniable

fact that Japan was once the aggressor in this region," there is great debate among all Japanese circles over his suggestions, such as amending the constitution, becoming an "ordinary country," and sending troops

abroad. As to how this "neonationalist" ideological trend will play out, and how much influence it will have on Japanese politics and policy trends, this merits attention and watching.

## Discussion of Gap Between Press, Social Development

94CM0337A Beijing ZHONGGUO JIZHE in Chinese  
No 4, 15 Apr 94 pp 45-46

[Special report by Zhang Kun (1728 2492): "The Scissors Gap Between the Chinese Press and Social Development"]

[Text] Looking around the world, the level of development of the press in almost every country is by and large a symbol of the level of development of the society as a whole. The wealthy developed societies have news paper industries of a high order; in the poor, backward nations the press cannot achieve the growth it should have. The news publishing industry is one segment of the social organism and is subject to a multiplicity of social restriction which include economic growth, culture and education, the degree of urbanization, income level of the populace, the levels of consumption and so forth. It is just these factors which also provide the opportunities for the development of the press. If the above mentioned conditions do not exist, then the press is like some flower bud deprived of sunshine and air, and shows no evidence of life force. This seems to be the normal law worldwide. However, the growth changes exhibited by the news paper industry in China during these past 10 years are something of an exception. Although smack dab in the middle of China's reform, opening up and social growth and subject to the effects of all the social factors, it has not nearly realized the tremendous growth potential provided it by our society's development, and thus there has been created a "scissors gap" between China's news publishing industry and its social development.

### "Scissors Gap": Causes and Manifestations

Scissors gap is an economic term. It is used to describe the irrational difference in prices when, in the exchange of industrial and agricultural products, the price of industrial products is high and the price of agricultural products remains low. In borrowing the term scissors gap here, we are explaining the difference that exists between the developments in China's news paper industry and in its society. The history of the reform and opening up era shows clearly that there has been a comparatively great growth in the number of types of publications, in the number of copies printed, and in the dissemination. However, relative to the overall development level of China's society, especially the economic level, the increase in urbanization and the level of education, the growth of the press appears far too small, too low. If we take 1978 as the common starting point for both the press and society, and then draw two lines connecting their starting points with their individual positions in 1991, the two lines would form an open scissors, quite similar to the scissors gap formed by the differences in prices between industrial products and agricultural products. According to material in the *China Statistical Yearbook*, several of the major indices which represent the overall level of development in China's society have

undergone tremendous growth in the dozen or so years since 1978. In the economic realm, for instance, China's gross national product (GNP) has grown from 358.8 billion yuan to 1,958 billion yuan in 1991, the latter being 293.8 percent of the former, and representing an average annual growth rate of 8.6 percent. National income in 1978 was 301 billion yuan and in 1991 was 1,611.7 billion yuan, a difference of 283.7 percent and an average annual increase of 8.4 percent. As far as the peoples' daily lives are concerned, in 1978 the worker's average wage was 615 yuan and by 1991 had climbed to 2,365 yuan, 162.8 percent above the 1978 level, an average annual increase of 3.8 percent. The people's consumption level in 1978 was 175 yuan and by 1991 had grown to 803 yuan, 227.5 percent above the former level, and representing an average annual increase of 6.5 percent. The rise in these major economic indices across a broad front powered the forward movement of the entire society. As far as progress in population and urbanization, the level of growth in China's society is rising yearly; yet, the degree of urbanization is one of the major conditions for the development of the news paper industry. The expansion of the scale of urbanization implies an increase in the number of inherent readers. In 1978 China's total population was 962 million people, of which urban residents numbered 172 million, approximately 17.92 percent of the total population; as of 1991, our total population had grown to 1.158 billion people, and the urban population as compared with that of 1978 had increased by 133 million, a 26.37 percent rise. This increase in urban dwellers set the conditions for the growth of the press. In addition to this, there was also a rapid growth in China's cultural and educational sectors, with the ratio of illiterates and semi-literates falling continually. In the third national census in 1982 the rate of adult illiteracy nationwide was 31.9 percent. Eight years later at the time of the fourth census, the rate of illiteracy had dropped to 22.27 percent, down 9.6 percent from 1982, and representing a decrease in the illiterate population of 70 million people. The economic growth, the increase in urbanization and the universalization of education provided even more enormous potential for the growth of the newspaper industry. However, in retrospect of China's press' actual performance, this potential never truly became reality. In 1978 there were a total of 12.78 billion copies of newspapers printed at the provincial, autonomous region, and municipality level nationwide; by 1991 this had risen to 17.66 billion copies, the latter being 138.2 percent of the former, an average annual growth rate of 2.5 percent. If we subtract the factor that during this same period China's population grew by 1.5 percent, then the yearly press growth is only 1 percent. This figure is far below the figure for GNP growth at 8.6 percent, national income at 8.4 percent and consumption level of 6.5 percent. If we use 1987 as a dividing line, in the earlier period, although press growth was lower than economic and other indices, at least it was growing. In 1987 20.49 billion copies of papers were printed at or above the provincial level nationwide; by 1991 this number had

decreased to 17.66 billion a 13.8 percent rate of decline. However, during this same period the advancement of the socialist economy, urbanization, culture and education never stopped but made great strides forward and this is what makes the scissors gap between the development of the press and of society so obvious. In 1992 China's GNP exhibited 12.8 percent growth over the previous year; workers' wages also grew by more than 10 percent. At this same time, in step with the expansion of rural and village enterprises, there was an increase in urban population and a decrease in the ratio of the illiterate and semi-literate nationwide. Under these conditions, although there was a great increase in the number and types of newspapers, the amount disseminated and the total number of copies printed, and especially distribution of daily papers, were still hovering around the 1991 levels. For this reason, the scissors gap between society and the press was tending to continue to widen.

#### The Real Level of China's Newspaper Industry

Since China's newspaper industry lags behind the actual level of social development, and is hard strapped to realize the tremendous potential offered by economic and cultural progress, then how do we assess the actual level of the present day press in China? This is a question extremely difficult to answer, but one which should not be avoided. If we cannot resolve this, then people have no way of gaining an understanding of China's newspaper industry's exact position in world press competition. Therefore, in order to evaluate the overall level of China's newspaper industry's development, we must touch upon a goodly number of concrete indicators which symbolize the degree of development of the industry. These include the number of types of newspapers, the degree of dissemination of the daily newspapers, page space, technical methodologies, economic scale, etc. Looking at the types of newspapers, in 1978 China had 186 types; by 1992 this number had grown to 1,791, an increase of eight- or nine-fold, and in 1993 there were nearly 2,000 types. As to absolute increase, the momentum has been very powerful. However, these figures, in relation to a nation with a population of over 1.1 billion people, are just too low. As early as 1880 England had 1,986 types of newspapers, and even earlier, in 1860, the United States already had over 3,000 types of newspapers. Another country, even more backward than China, and with a population smaller than China's is India and in 1989 it had 1,802 different types of daily newspapers alone, 6.9 times as many as China had at that time. In relation to fast developing China, the numbers are simply too low and are a detriment to the extended development of reform and opening up. Since the number of types of newspapers is low, the degree of dissemination is likewise low, especially the dissemination rate of daily newspapers which falls far below average world levels. A foreign scholar, using statistics provided in the UNESCO Statistical Yearbook on the mid-1970's, divided 142 nations of the world into four

categories: "high" "better than average" "less than average" and "low" as regards the level of their newspaper industry based upon the number of daily newspapers per 1000 population. The base numbers he used were 390 issues, 50 - 390, 1 - 50 issues and less than one issue. Also, according to the *China Press Yearbook*, in 1987 China had 49 issues per 1000 people, the highest level in the history of China's press industry, and even this was in the "less than average" range. However, since 1988 China's news publishing industry began to decline. As of 1990 the rate of papers per 1000 had fallen to 35, returning to the 1983 level. In relation to the minimum standard for the mass media industries of developing nations suggested by UNESCO, that is, 10 issues of daily newspapers per 100 persons, China's news industry still has a long way to go. If we state that the actual level of newspaper industry expansion is reflected numerically primarily in the number of types of papers and the ratio of dissemination, then the size of the page surface area would be an important standard for measuring the quality of the industry. What we can say is that as far as increases in page area are concerned, the Chinese press has come through with flying colors over the past several years. Ten years ago all of China's newspapers were uniformly and without exception editions consisting of four large pages. Beginning in the 1980's and into the early 1990's, the tide of expanded editions began to roll across China. At the present time, although the majority of local and city papers, evening papers and specialty papers still consist of four pages per edition, the party papers at the provincial level are basically all now eight pages per day, and in the south, in the prosperous industrial and commercial cities, papers like the GUANGZHOU DAILY put out 12 to 16 pages per day, a qualitative leap. However, in comparison with other nations, the page count in China's newspapers is still extremely low. As early as the 1780's the major New York newspaper was publishing eight pages per day, and today America's major dailies commonly put out about 100 pages daily and about 200 pages on Sunday. The newspapers in Japan have a system of coordinated morning and evening papers, with the common morning daily running about 36 pages, about the same page area as major dailies in England. During the 1980's Brazil's SAO PAULO PREFECTURAL PAPER [as published] maintained an average of 28 to 48 pages per issue. In France, Germany and Italy, the newspaper page area is relatively small, but still runs in the 24 page range. The gap in page count between Chinese and foreign newspapers is not something that can be resolved in a short period of time. As to the management of publication houses, the gap between China's newspapers and foreign papers is even greater. Despite the fact that in recent years the price of newspapers has risen again and again in China, and the price of advertising has also risen rapidly, the scale of operations and the gross income of the newspapers is still far below the level of the developed nations. For instance, the XINMIN WANBAO, with a circulation of 1,700,000 has an annual income from advertising of over 100 million yuan Ren Min Bi.

But in comparison with the MAINICHI SHIMBUN, it pales into insignificance. The latter brings in US\$3 billion per year in distribution sales alone, and if we add on advertising revenues, annual operations run between \$6 - 7 billion. As far as the newspaper industry's diversification of operations, nothing is left undone, they being broadly involved in the news industry and information gathering, finance and insurance, tourism, medicine, sports, recreation and such arenas, Chinese newspaper people find such scales of operation hard to believe. As to technologies employed, China's newspaper industry has made tremendous advances in the past several years and has basically exited the lead and fire era and entered the age of electronic laser photography. In order to solve the problems of distant printing plants, many of the large newspapers have gotten their hands on key technologies such as communications satellite full page facsimile relay; some newspapers have equaled the developed countries in their printing quality. However, in the field of reporters' equipment there are still a great many shortfalls. In Europe, United States, and Japan, many of the newspapers have their own airplanes, their own satellite relay trucks, and almost every reporter has his own subsidized automobile. The news agencies and the reporters are able to switch around as needed when major events break out and deploy for coverage. This is something the Chinese newspaper industry cannot match. Thus it can be seen that in the dozen or so years of reform and opening up, China's new paper industry, despite considerable advancement, because of various interlocking factors, in the main it is still about at the level of the advanced nations in the early 20th century, in the period between the two world wars. What is to be done? Why is it that China's newspaper industry lags so far behind the historical progress in economics and

culture, so much so that a scissors gap has developed between the press and social advancement. There are many concrete reasons and it is worth our while to ponder this situation and find some practical measures to remedy the situation. For instance, the price of a newspaper is too high and has gone beyond the readers' purchasing power: this is one of the major causes. According to a general rule of worldwide newspaper industry development, the annual subscription rate for a high class daily paper should not exceed 1/100th of a citizen's average wage. In the early 19th century, before the advent of the U.S. popular newspaper industry, the annual subscription rate to a daily newspaper was about equal to an average worker's weekly wage, or about 2/100ths of the worker's annual salary, and Americans all complained it was too expensive. However, in 1992 the subscription price of a folio size eight-page newspaper is about 108 yuan, equal to about four percent of an Chinese worker's average wage, more than double the level in 19th century America. This is the major real factor which stymies the expansion of publication of the papers and any rise in dissemination. In 1994 China's newspaper sector again raised prices across the board, and according to the information from the publication departments, nationwide 80 to 90 percent of the papers raised their prices anywhere from 30 to 50 percent. There is no doubt that this will lead to a further drop in distribution and further weaken the newspaper's position as the popular communications medium. Other questions, such as whether the papers should tell the people what they want to hear or tell them the facts, whether they adequately cover the lower levels of society, the degree of trust between the readers and the reporters or the newspaper itself, and so forth, are also factors which have an effect upon distribution figures.

## NATIONAL AFFAIRS, POLICY

### Many Opinions, No Consensus on Development, Reform

94CE0622A Beijing ZHONGGUO WUZI BAO  
in Chinese 29 Jun 94 p 3

[Article by Lin Fan (2651 2868): "Economists Hold Different Views on Development and Reform"]

[Text] Nineteen ninety four has been dubbed "year of economic reform" in China. Judging from the performance of the economy in the first quarter, although most reforms measures have been introduced successfully, reform has disturbed the interests of all parties and the underlying contradictions of the old system have not been really resolved. In particular, inflation has reached an alarming level. Strapped for working capital, many state enterprises, especially small and mid-sized ones, have once again fallen behind in their payments. Some enterprises are in a semi-idle state or have suspended operations altogether and workers are facing the threat of unemployment. Signs of instability have emerged in the three northeastern provinces and other areas with a high concentration of state enterprises. The leadership is watching the situation very closely. A heated debate is under way in China's economic community on how to read China's current economic situation and determine the pace of reform.

#### "Double Acceleration" or "Double-Heating"

A "current situation and reform deepening" seminar was held in Beijing in late October 1993, attended by 100 economists. Some seminar participants pointed out that in the transition from the old system to the new, some economic disorder is inevitable. Emphasizing what Deng Xiaoping has said about "development being the only truth," they argued that we should be most concerned about a rebirth of the old order in various forms even as we tighten macroeconomic regulation and control. Others claimed that there is no "double-heating" in the economy, namely excessive fixed assets investment and a bloated money supply. Instead we should work to accelerate reform and development, otherwise known as the "double-acceleration."

The "double acceleration" slogan was formally coined in RENMIN RIBAO's New Year commentary.

Yielding to pressures from all quarters, the central bank adopted an easy money policy between September and November last year, issuing a large amount of basic currency and widening the scale of bank lending. The rate of industrial output, headed downward at one point, began rebounding in November and December to reach 13.9 percent. At the same time, prices surged relentlessly. The reality of worsening inflation has forced reform to slacken its pace this year.

Wu Jinglian [0702 2417 6969], the well-known economist, said that when development clashes with reform,

the former should yield to the latter. Li Xiaoxi [2621 2556 6007], who has a Ph.D. in economics, argues that the policy for 1994 should be to go slow on development while concentrating on reform. Back in November 1993 Yang Fan [2799 1581] of the Economics Institute, Chinese Academy of Social Sciences [CASS], put forward in no uncertain terms his suggestion of "economic retrenchment and accelerated reform." He claimed that when reform and development proceed in tandem, inflation would worsen. Reform can be successfully carried out and the economy's underlying contradictions worked out, he theorized, only under economic belt-tightening. He noted that inflation gives a new lease on life to enterprises which have no hope of ever achieving profitability and should go bankrupt and bring about a return to old price ratios, thereby undoing all the good work of price reform. In an inflationary situation, people lack confidence in the renminbi and foreign exchange becomes a hedge against inflation and even a speculative tool. Should we go ahead and make the renminbi freely convertible under these circumstances, people will scramble to convert the renminbi and buy up foreign exchange in panic, which, in turn, will force the central government to reimpose foreign exchange control. Reform, therefore, cannot proceed smoothly in inflationary times.

The simultaneous acceleration of reform and development and the tolerance for a certain amount of inflation are regarded as one of the features and strengths of China's incremental reform over the past 15 years. A long-held view among many well-known scholars is that reform necessarily causes inflation, as does development, and that we cannot let our fear of inflation cause us to miss the opportunity for reform and development. To push ahead with reform amid economic retrenchment, on the other hand, is considered a form of "shock treatment," Chinese-style, which the experts fear may cause massive unemployment and hence extensive social upheaval.

#### Which Comes First, Saving Jobs or Holding Down Prices?

What really was the thrust of macroeconomic regulation and control in the first half of 1994?

Sun Shangqing [1327 1424 3237], director of the development center under the State Council, said it was anti-inflation. Lu Baifu [7120 4102 3940], deputy director of the development center, called on the central government to hold high the banner of anti-inflation. Dong Fureng [5516 6534 4356], vice chairman of the financial and economic committee of the National People's Congress, said that macroeconomic regulation and control has been pulled in different directions in 1994, with emphasis on combating inflation in the first half of the year. Qiu Xiaohua [6726 2556 5478], a deputy section chief from the State Statistics Bureau, argued that in 1994 we should tighten macroeconomic regulation and control first before easing it.

Professor Li Yining [0632 0110 1337] of Beijing University stressed yet another aspect of the issue. His policy: Make employment the top priority while taking price stability into consideration. In his opinion, the outcome of macroeconomic regulation and control should not be a sharp drop in the rate of economic growth in the name of fighting inflation. Instead, we should keep the economy growing fairly briskly while holding inflation below a socially tolerable level. His argument is that inflation hurts the vast majority of people, particularly the unemployed, who have no income. He said, "People who have jobs and therefore earnings are somehow able to cope with inflation to varying extents. As for jobless and incomeless households, there is no way they can handle the difficulties brought on by inflation no matter what." When inflation becomes really severe, he proposed, the government may if necessary peg income growth to the rate of inflation through such mechanisms as income indexation and deposit indexation in order to ease social instability over time. However, in times of high unemployment, the government still does not have any really effective tools to ameliorate the discontent of the unemployed.

Dr. Zuo Dapei [1563 1129 1014] of the Economics Institute, CASS, was adamantly opposed to "growth first," basing his objection on the experience of Yugoslavia. He advocated lowering the growth rate to a "natural" growth rate of about 10 percent. Anything above this, he asserted, is bound to give rise to high unemployment down the road, forcing us eventually to put the brakes on the economy with even heavier losses.

In Wu Jinglian's opinion, inflation has the same effect on every single unit of money but impacts different social strata differently, hitting the wage-earning strata, the stabilizing strata in society, especially hard. He strongly suggested that subsidies for money-losing large and mid-sized state enterprises be open subsidies, not hidden ones, such as the hundreds of billions of yuan in loans being made by banks these days, loans which carry negative interest rates. He likened this situation to "drinking poison to quench thirst." In the West, replacing unemployment with inflation led to stagflation. We should learn a lesson from this. Wu Jinglian was also opposed to the notion of linking reform to inflation and the suggestion that reform necessarily causes inflation. As long as aggregate demand and the money supply do not reach excessive levels, price reform will not drive up the overall price level.

As yet there is no social security system in China. For this reason, once large and mid-sized state enterprises start losing money, they invariably fall back on bank loans as a source of payroll. Even enterprises which have no hope of turning a profit cannot go the bankrupt route; meanwhile, their bad loans pile up at the banks. The outcome is twofold. On the one hand, the scale of lending keeps getting bigger and bigger, intensifying inflationary pressures. On the other hand, even banks themselves cannot achieve accountability for their own

profits and losses, reducing to empty talk the reform goal of the commercialization of specialized banks. More and more economists have come to believe that institutional reform in state enterprises must be accelerated and that we cannot possibly let the losses of large and mid-sized enterprises ruin the entire economy. The antidote to unemployment is a sound and comprehensive social security system. Inflation is too high a price for unemployment. Better to have the treasury give out subsidies and relief payments as a means of dealing with the losses of state enterprises and inflation than boosting the money supply indiscriminately to the detriment of our effort to control the overall size of the economy.

Since they come under pressure from all sides, the policy-making echelons must take the whole situation into account and plan accordingly. Reports say that since the second half of this year the central bank has been pumping more currency into circulation to ease the fund shortages of state enterprises. In conjunction with the People's Bank, the Bank of Industry and Commerce, and other bodies, the State Economic and Trade Commission is currently working to break the "triangle of debt" of key industries and leading state enterprises with a minimum of credit funds, starting in the northeast. "Wage a quick war to settle the problem swiftly." Will the easing of the tight monetary policy in the second quarter exacerbate the inflationary trend evident since the beginning of the year? This is being watched closely by all quarters.

### State Enterprises To Receive Fixed Subsidies

94CE0558A Hong Kong CHING CHI TAO PAO /ECONOMIC REPORTER/ in Chinese No 18, 9 May 94 p 12

[Text] Chief features of a joint announcement by the Ministry of Finance, the State Commission on System Reform, and the State Commission on Economics and Trade on "Management of Fixed Subsidies for State Enterprises with Policy-Incurred Losses" are listed below.

1. Such enterprises, as determined by the state, are targets of social benefit, or are planned products of ordered production, that because of set prices, suffer policy-incurred losses. Because of this, commodity price management agencies should have a plan to regulate or free prices, and corresponding subsidies or compensation should be provided after investigation and approval by the Ministry of Finance. Should an enterprise continue to incur losses after these measures have been taken, it should be treated as an operation loss. For enterprises that have incurred losses because of poor management, no subsidies are given.

2. How the Ministry of Finance treats policy-incurred losses sustained by an enterprise is based on the averages of actual cost, expenditure outlays, and reasonable profits made by a similar enterprise making the same kind of product under similar market conditions, before

a fixed subsidy can be approved. It can also base approval on the enterprise's actual situation, and implement "total control," "loss mitigation," "lump sum," subsidies etc.

3. The scope of policy-incurred losses for enterprises include the following: (1) producing (operating) state-designated products (enterprise), that include (handles) products, commodities, materials whose prices are fixed by the state, and where sales are not adequate to cover the enterprise's set production costs (expenses), its original seed money costs, and taxes. (2) expenses related to stocking and holding commodities for the state to exercise macroeconomic control and regulation; (3) losses from managing designated state-owned agricultural enterprises that are not equipped for production and operation; and (4) other subsidies that should be granted in accordance with laws of the state.

4. In principle, the criteria for policy-incurred subsidies are based on last year's net losses minus unreasonable expenses, to which increasing or decreasing loss factors on policy-incurred losses, as determined most recently by the state, are added or subtracted. Expenses for holding in reserve certain special material resources for the state, which have been included in the enterprise management fee, are not accounted for as a single item for a loss subsidy.

5. The numerical standard for policy-incurred losses is based on the output volume, sales volume, inventory, operating volume, and other indexes of commodities designated by the state for production and operation.

#### State Information Center Researcher on Inflation, Prospects

94CE05994 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 94  
pp 7-14

[Article by Li Lay (2621 2139 0068), affiliated with the State Information Center Research Institute: "Inflation in China—Status Quo, Prospects, and Remedies"]

[Text] This year, 1994, is a crucial one for China's economic reforms, movement towards a socialist market economy, and opening up to the outside world. At this decisive time in the historical development of the Chinese economy, China's inflation and economic growth situation in 1994 is especially noticeable, so may be called a focus of world attention and concern to all Chinese.

China's "double 13" in 1993—a 13-percent retail commodity price index and a 13.4-percent GNP growth rate—has set the keynote for China's economic situation in 1994. As to Chinese who do not believe in "foreign superstitions," this "double 13" is half good and half bad for China's 1994 development, half auspicious and half not.

#### I. China's Inflation Status Quo

1. Fishing-style investment forces are still playing a role. There are now almost no investment projects that are not overbudget, with investment projects running generally 40-50 percent overbudget, and most running several times over their original budgets. While there are many causes for investments running overbudget, such as inflation, the major cause remains China's investment system. As to current local government and enterprise investment funds, except for some being self-raised, a great many are still dependent on bank loans. And as bank loans in the final analysis are state loans, investment efficiency goes mainly to localities and enterprises, while investment risk is mostly reserved for the state. Under such conditions, all local governments and enterprises naturally take the initiative in competing to invest and start projects. This is the basic cause of China's investment scale being repeatedly out of control.

A key contributing factor to China's 1993 inflation was this runaway investment scale. In 1993, China's national fixed assets investment amounted to 1.1829 trillion yuan, up 50.6 percent from 1992 (corrected for inflation, up a real 22 percent). By the end of 1993, China's planned overall investment by state units in capital construction and replacement and upgrading projects had reached 2.3271 trillion yuan, up 41.5 percent from the end of 1992; excluding completed projects, China's year-end uncompleted projects had reached 1.32 trillion yuan, up 60 percent. In China's runaway investment scale in 1993, China's real estate investment scale was again most conspicuously out of control, with the data showing China's 1993 investment in real estate at 100-200 billion yuan, most of which was concentrated in the two provinces of Guangdong and Hainan and the city of Beihai [Guangxi]. Even more of a headache is that real estate investment very quickly evolves into real estate speculation.

This enormous investment scale brought overall shortages to industrial production in communications and transportation, power, and raw materials, where product supply did not meet demand. In addition to raising factory prices for manufactured goods 24 percent and fixed assets investment prices 28.6 percent, this also caused imports of 30 million tons of rolled steel and over 10 million tons of crude oil, resulting in a foreign trade deficit of \$12.18 billion. As large amounts of exportables were shifted to meet domestic demand, in addition to Western economies being still hesitant to bottom out, China's export growth rate in 1993 was the lowest in recent years, at only 8 percent, while China's import growth rate reached 29 percent, the highest in recent years. As China's foreign exchange reserves in 1993 were only a little over \$50 billion, not considered a lot, unless China's foreign trade deficit is turned around, China's foreign exchange reserves will be affected. This will have a negative impact on China's ability to repay its foreign debt and the progress of the renminbi toward becoming a convertible currency.

While the brief braking in mid-1993 effectively curbed new project starts, it certainly did not thoroughly deal with ongoing projects, shifting a huge amount of projects underway to continued construction in 1994. In light of the project-overbudgeting factor, completing these projects will require an additional huge investment in 1994. In addition, as fixed assets investment in 1994 for certain indispensable new project starts will be bound to escalate, it will be hard to reduce the investment scale.

It could be said that the two crucial factors sustaining 1993's rapid economic growth were fixed assets investment and imports. As China's 1994 fixed assets investment scale will be hard to cut back, with China's import momentum continuing, these two key factors will drive China's 1994 economy to continued rapid growth. While the government has planned for a 1994 GNP growth rate of 9 percent, down 4.4 points from 1993, if real implementation can bring China's economic growth rate back down to 10 percent, this will be considered pretty good, unless the government decides to halt a large group of already underway projects and restrict imports. But these two actions would now seem hard to take.

China's industrial growth rate for January 1994 has already verified this argument. While China's national industrial output value at the township level and above for January 1994 was 290.3 billion yuan, for average daily output-value growth of 19.9 percent, or quite rapid growth momentum, China's state enterprises had not yet bottomed out, with average daily output-value growth for the month of only 2.9 percent, leaving many state enterprises still faced with the inability to pay wages. So how to enable state enterprises to bottom out will become one of 1994's hot topics. China's imports continued to grow quickly in January, with exports picking up only somewhat, showing that China's 1994 economic growth will be sustained by imports, making it hard to reverse China's foreign trade deficit. China's foreign exchange balance grew in January because of other foreign-exchange income, not foreign trade income. Consumer prices for January in 35 large and medium-sized cities were up 23.3 percent from January 1993, getting off to a good start. It is thus obvious that the brief braking in 1993 certainly did not remove the inherent drive of inflation, rather merely alleviating its acceleration momentum.

**2. Income-competition forces and the wage-erosion-of-profits mechanism are still having an impact.** Since reform, China's ratio of personal incomes to national income has continued to climb, rising nearly 1 point a year. Comparatively, state revenues have dropped. This simultaneous rise and fall shows that state revenue has shifted to individual pockets, with the wage-erosion-of-profits mechanism playing a role all along. Meanwhile, income-competition forces are also having an impact. China's 1994 economic reforms are certainly not essentially touching on these two forces. While China's tax reform is dealing with the income matter, it has no direct impact on the incomes of the

absolute majority of individuals. As long as these two forces continue to play a role, individual incomes will continue to rise. As individual deposits reached 1.4764 trillion yuan in 1993, up 321.9 billion yuan from the end of 1992, or 27.9 percent, in addition to individual investment in stocks and bonds, individual savings have become the dominant force in domestic savings, the major source of investment. As China's fixed assets investment scale will remain high in 1994, maintaining individual savings will be particularly important. Coordinating individual savings with enterprise and local government investment will be an indispensable matter of macroeconomic regulation and control in 1994. In 1993, we depended on savings as a hedge [against inflation] and sales of treasury bills and stocks to balance this equation. In 1994, in addition to continuing to depend on savings as a hedge, we are establishing a national treasury bond market, allowing individuals to buy and sell treasury bills directly on the national treasury bond market, and putting about 5 billion yuan in new stocks into circulation, all of which will play a role in balancing savings with investment.

In 1993, rural incomes averaged 921 yuan a year, corrected for inflation up about 3 percent, far less than the 10.2-percent real growth of urban incomes, leaving China's urban-rural gap continuing to grow. This means that competition forces are having an impact in the cities on one hand, while the urban-rural gap grows on the other, which is China's basic income-distribution feature at present. This, plus China's growing coastal-interior income gap, are likely to become factors contributing to social instability.

The civil-service wage-reform steps taken by the government in 1994 are bound to spur competing claims by state enterprises and other city dwellers. In urban labor markets, the cost of hired manpower was up sharply by the end of 1993. And it seems that 1994 is going to be a year of individual incomes rising to new heights. The extent of the impact of higher incomes on prices will take some time to determine. And this will affect the full implementation of "housing reform" in 1994. If there is widespread buying of housing in 1994, the impact of higher salaries on prices will be down sharply. In addition, if treasury bill and stock prices on securities markets rise, this will help to attract individual purchases of stocks and treasury bonds, curbing individual consumer demand.

**3. Currency speculation-pressure forces are still playing a role.** Local governments and enterprises are doing all possible to expand investments, with this speculation pressure forcing local banks to repeatedly strive to make additional loans. Speculation-pressure forms are many, such as fishing projects in which, unless banks make additional investments, their original investments also lose. And when working capital is squeezed out and spent on fixed assets investment, leaving factories confronted with operating and wage-payment problems, banks have to grant stability and unity loans. When

local-bank quotas are not adequately used, this puts speculative pressure on higher-level banks, with all specialized banks finally putting speculative pressure on the central bank to increase its lending. In 1993, China's bank loan balance was 2.6461 trillion yuan, up 484.6 billion yuan from the end of 1992, or 22.4 percent, including a working-capital loan balance of 1.8689 trillion yuan, up 19.5 percent, a fixed-assets loan balance of 517.1 billion yuan, up 31.7 percent, and a market-cash money supply of 586.5 billion yuan, up 35.3 percent. As working-capital loans in 1993 were far from meeting market demand, the pressure on banks to make additional working capital loans in 1994 will continue to grow.

While 1994 is a crucial year for the establishment of money markets, financial reform, as to either macroeconomic regulation and control or microeconomic forces, has not yet broken us out of the old system. Unpaid state-enterprise loans have turned about one-third of China's banking system's book assets into a mess of bad debts. So in the interests of fund turnover, it is necessary to constantly supplement them with new funds. This has also become one of the reasons why it has been so hard to tighten the banking faucet. Specialized banks that wish to commercialize are also confronted with how to deal with this mess of bad debts. In addition to ownership-system reform, this is another crucial matter impacting banking's movement toward the market.

The bank-lending situation in 1994 is not optimistic. In addition to the fixed assets investment scale requiring a large input of funds, the current working capital shortages and sharply increasing triangular debts among industrial enterprises are also requiring a large fund input. It will be hard for state enterprises to bottom out in 1994 without a large input of working capital. While the funding platter set for 1994 is one thing, the one that real implementation will form is quite another. China's huge investment scale, rapid economic growth, and double-digit inflation are expansionary forces for China's banking system's funding platter.

These three key microeconomic forces are impacting their corresponding macroeconomic regulation and control departments. Fishing-style investment forces are impacting the Planning Commission's investment-planning platter. Income-competition forces and the wage-erosion-of-profits mechanism are impacting the state receipts and spending-planning platter. And currency speculation-pressure forces are impacting the bank loan-planning platter. In China's past traditional system, the old macroeconomic regulation and control system's inability to cope with these bottom-up effects finally forced the adoption of the "double-tight" policy. And China's new macroeconomic regulation and control system that is just being established is still exploring effective ways to deal with these effects.

So China's 1994 status quo as to inflation and economic growth is not optimistic. And we now have no weapons

in hand to improve the status quo in these two areas. As China's old system has retired from the historical arena and China's new one is just being established, whether the Planning Commission can effectively deal with fixed assets investment projects underway, and whether banks can maintain their lending scale, will both require the test of time. Even if China's 1994 economic growth rate subsides to 9 percent, this will not be adequate grounds to say that inflation will subside correspondingly. On the heels of two consecutive years of double-digit growth rates, a third year of a 9-percent growth rate will still be fast growth, despite a 9-percent growth rate being the average for China's 15 years of reform. This shows that even if we achieve a 9-percent growth rate in 1994, China's growth rate will still not fall below China's potential growth rate (approximating China's average growth rate). So we have no grounds for counting on inflation to either fall below 10 percent or even be lower than in 1993. It will really be hard for inflation in 1994 to either experience no further acceleration or recede somewhat from its high January start. Furthermore, in consideration of the higher prices due to price adjustments in 1994, capital goods prices in 1993 being higher than the retail price index, which will be bound to be shifted in costs, and the diversion due to price tails, how much room will there be left for prices to come down in 1994? In addition, China's foreign exchange track-merger and China's tax reform will both have a considerable impact on prices. When considering the impact on prices of these many factors, could we still hope that prices will fall?

As to the current round of inflation, in addition to the continued impact of the abovementioned old mechanisms, certain new factors, forces, and features are emerging. To control inflation, we also need to consider and study these new matters.

By the end of 1993, China had over 13,000 shareholding enterprises, with share capital amounting to 208.632 billion yuan, and 25 million shareholders. China's 1993 A-share market value was 13.27 trillion yuan. A marked feature of China's stock markets is sharp speculation. While the stock market turnover rate is about 50 percent in developed nations, and not even higher than 135 percent in Hong Kong that claims to have a speculation market, it was respectively 220 percent and 250 percent in Shenzhen and Shanghai for the first 11 months of 1993. So we estimate that roughly 100 billion yuan of speculative capital is being speculated in stocks and bonds.

In 1988, we could still speak of no real estate speculation. But by 1993, China's national real estate speculation capital was about 100 billion yuan at a conservative estimate, and possibly as much as 200 billion yuan. In 1993, China's national unsold commercial housing alone was overstocked to the tune of 50 billion yuan (at 1,000 yuan a sq m).

And China's red-hot futures and foreign exchange markets in 1993 also had roughly 100 billion yuan in speculation capital.

So a rough but conservative estimate shows China with around 300 billion yuan in speculation capital. If one-tenth of this exists in idle form, then 30 billion yuan in speculation capital might hit China's markets at any time, stirring up trouble. This 300 billion yuan in speculative capital and 30 billion yuan in idle funds are sharply adding to the uncertainty of the Chinese economy. As China's above calculations were merely estimates, with the size of the errors unknown, improving China's information collection and processing in this area is imperative. But one point is certain, the sharp volatility in areas, such as rolled steel prices on real estate and futures markets in 1993, was closely related to the trouble stirred up by this huge amount of speculation capital.

The basic feature of speculation capital is not to make substantive investments, but rather simply to feed on "price disparities," by buying low and selling high. In comparison to the normal profitmaking on "price differentials" by commercial capital, speculation capital takes greater risks and has higher returns. Another feature of speculation capital is that it is very sensitive to macroeconomic conditions and economic policy. The further insane rise in rolled steel prices in late 1993 and early 1994 illustrate this point. When loans were eased slightly in the last half of 1993, speculators anticipated that 1994 would be a year of rapid economic growth, in which rolled steel demand would remain very high, so began to stockpile it in an attempt to sell at a good price to profiteer.

The appearance of this speculation capital has brought two profound changes to the Chinese economy.

1. The economic minds of Chinese consumers and producers have grown more complex, with a sharply raised awareness of expectations and uncertainties. Prior to economic reform in 1978, consumers and producers were both under tight planning restraints, with very little decisionmaking power. The economic man of the time was quite like a robot, able to act only as ordered. After the economic reform in 1978, while the planning restraints on the economic man gradually weakened, producing a sense of expectations, the economic man of the time was still passively adapting to economic conditions. But by 1993, the economic man that we saw was switching to an active adaptation to economic conditions, striving to reap profits from economic changes, as opposed to merely avoiding losses as in the past. For instance, the sudden national rise in grain prices at the end of 1993, with grain prices in a bumper-harvest year rising instead of falling, seemed abnormal. But this was related to the strengthening of peasant market-economy awareness, or actions taken by peasants to actively cope with inflation. In this sense, it was normal, not abnormal. What was truly abnormal was that so many of us had made no psychological preparations for it. We were still accustomed to seeing peasants as simple-minded robots. Of particular note at present is that the rise in inflation in 1993 has raised individual awareness of the uncertainties involved in future expectations. For instance, as to the uncertainty gauge of the ratio of urban resident demand deposits to term deposits, this ratio in 1988 was 0.3, the highest since 1962, and 0.26 by 1993, the highest since 1989, second only to that of 1988, and equalling that of 1987. Considering China's very rapid stock market growth in the last two years, with incomparable factors, we can take a look at the monthly data on this ratio for 1993. See table 1.

Table 1. Ratio of Urban Resident Demand Deposits to Term Deposits

Month	January	February	March	April	May	June
Ratio	24.61	25.08	26.64	28.09	28.56	29.05
Month	July	August	September	October	November	December
Ratio	28.01	26.98	26.15	25.63	25.53	26.34

Table 1 shows that this index fell after the Center tightened macroeconomic regulation and control in 1993, indicating that the regulation and control worked, weakening the individual sense of uncertainty. But this ratio has risen somewhat again since December 1993. This index also shows that the dual indexes of expectations and uncertainties are making the decisions for today's economic man, who is more sensitive to changing uncertainties, and can very quickly respond in the area of assets reorganization. Since we have had stock markets, the individual sense of uncertainty toward macroeconomic influences is up sharply, playing no lesser role than expectations toward economic influences. His transformation of the economic man is related

to China's establishment of a market economy, as well as to China's 28 million shareholders, who have a far greater economic awareness than the ordinary person. Shareholder economic actions also affect the people around them. These 28 million shareholders are equivalent to 28 million little economic experts, or to 28 million economics teachers. Their teaching by personal example as well as verbal instruction is promoting the rapid maturity of China's economic man. As to this economic man with a high economic awareness, as long as policies are adjusted slightly, he can make some response. We now need to theoretically intensify our studies of expectations and uncertainties, paying policy attention to their changes.

2. The existence of this speculation capital has also brought profound changes to the conducting mechanisms in the Chinese economy. For instance, while increased government lending used to be generally subject to a 6-months to 1-year time lag before its impact was conducted to output or prices, since the appearance of speculation capital, the conduction process has become a simple leap, in which extra lending is immediately reflected in output and prices. The mad rise in rolled steel prices in late 1993 and early 1994 was a typical example of this, with speculation capital responding immediately to policy changes. This exemplary role of speculation capital is likely to infect the entire economic system. While the impact of this conducting-mechanism change is quite profound, we have just begun to study it. When trying to control inflation, we need to especially consider this change.

A crucial driving force in China's 1993 inflation was the trouble stirred up in the real estate market by speculation capital, which caused real estate prices to skyrocket, thus leading to the national development-zone and real-estate fever. This not only concentrated a large amount of capital in real estate, but also tied up large volumes of building materials and capital goods in real estate, leading to the rise in capital goods prices, which drove inflation growth. Of course, while the runaway fixed assets investment scale in 1993 showed up not only in real estate, but also in other lines, the impact of the runaway investment scale in real estate was undeniable. And China's inflation in 1994 will remain closely tied to this speculation capital, which deserves great attention. We need to pay particular attention to the higher economic awareness of today's economic man, with a more complex economic mind and economic behavior. As long as we continue to regard today's economic man as a simple-minded robot, this proves precisely that we ourselves remain quite simple-minded, unable to adapt to circumstances.

## II. Inflation Prospects

China's inflation control in 1994 is focused on the two general aims of bringing China's economic growth rate back down to 9 percent, and striving to bring inflation back down to 10 percent. But unless we take in 1994 as strong steps as we did in 1988, continuing rather to control inflation through the forms of brief braking and soft landing, then it is going to be very hard to bring inflation in 1994 below 1993's 13 percent. And unless we slam on the brakes in 1994, continuing rather to let inflation grow, then the high January start will continue, with inflation in 1994 likely to top 20 percent, to reach its highest level since reform. In short, inflation in 1994 will actually be related to the policies adopted by China's government. We will discuss China's 1994 inflation situation below based on three types of countermeasures.

1. The inflation-control measure most likely to be adopted is the brief-braking and soft-landing form. As to investment policy, this will mean strictly restricting new

fixed-assets-investment project starts. As to those already underway, we will need to take strict inventory, slowing, and stopping steps, in an effort to gradually complete these projects in the next few years. Such steps will be easier for local governments and enterprises to accept, with this policy relatively easier for the State Planning Commission to execute. Premised on this, the State Planning Commission needs to act in line with industrial policy, by ranking ongoing projects as to priority and nonpriority ones, to concentrate funds on ensuring the completion on schedule of priority ones. As to nonpriority projects, local governments and enterprises will have to raise the funds themselves. In cases where the funds cannot be raised, the projects will naturally be listed as ones to be slowed or stopped. But as fundraising channels are now ample, local governments and enterprises should be able to raise enough funds to ensure the completion of the vast majority of nonpriority projects, with the only difference being longer construction periods. As to fiscal policy, this will mean strictly limiting the number of new employees under state-revenue responsibility, which will curb social group-purchasing. Meanwhile, it will also mean striving to sell more treasury bills, with more national treasury bonds being sold in 1994 than in 1993. As to monetary policy, banks will adopt a policy of ensuring priority investment projects, with working-capital supply remaining tight. The 3-year ensured-value savings policy will not change. The interest rates on both demand and term deposits are likely to be raised slightly again, with correspondingly higher enterprise-loan interest rates. While the central bank policy of a legal reserve-fund rate will not change, with the central bank's excess reserve-fund rate also unchanged, all specialized banks are likely to overstep policy provisions when implementing the excess-reserve-fund-rate policy. This year, 1994, will be one of preparing for open market operations. While the official terms for open market operations do not yet exist, the central bank will emphasize preparations and experiments in this area. In short, China's 1994 investment growth rate (at comparable prices) will be lower than 1993's, with China's loan growth rate roughly equal to or lower by 1-2 points than in 1993. China's inflation rate will be generally around 15 percent, up somewhat for the months during the first half, but back down for the second half. And China's economic growth rate is likely to drop to 10 percent.

If China's policy adopted in 1994 of brief braking and soft landing can achieve these objectives, then it will be continued in 1995, to bring China's economic growth rate back down to under 10 percent, and inflation down to around 10 percent. These are probably the most ideal aims.

2. But if China's 1994 form of brief braking does not work, particularly if inflation for the first half retains its accelerated-growth momentum, to affect social and policy stability, then there is likely to be a shift in July or August to a policy of strict inflation controls. As to investment policy, in addition to strict control of new

project starts, this would also mean taking steps to stop, slow, or freeze some ongoing projects. Banks would also adopt a corresponding policy of strict limitations on self-fundraising, to ensure the funds needed for priority construction projects. As to the granting of working-capital loans, banks are also likely to adopt a strict policy, leaving enterprise working capital in sharp undersupply, and a considerable number of enterprises unable to turnover working capital, impacting operations. The phenomenon of arrears among enterprises would be severe. State revenue would also adopt a policy of tighter control of social group-purchasing, correspondingly reducing spending in certain sectors, bringing the spending growth rate clearly down. While such severe control steps would clearly bring China's 1994 economic growth rate down, certainly to below 10 percent, inflation would not drop obviously, likely remaining equal to or slightly lower than 1993, at 10-13 percent. But by 1995, unless China's economy continued to slide (possibly dropping under 5 percent), inflation would be down clearly, likely also falling to around 5 percent.

3. The third possibility is even less likely. The keynote would be that as long as China's economy continued to grow, there would be no urgency to control inflation, with the adoption merely of certain curbing measures. While this would allow the fixed assets investment scale to continue to expand, there would be some limitations, mainly on new project starts. Bank lending priorities would be aimed at stimulating large and midsize state enterprises, granting them more working-capital loans, to enable them to escape their plight. A tight fiscal policy would likely remain. In this case, China's 1994 economic growth would continue at double digits, likely equal to 1993, while inflation would grow monthly, for an annual inflation rate topping 20 percent, with accelerated-growth momentum.

If we adopt in 1994 the form of brief braking and soft landing, the inflation results will be roughly a consumer goods price growth rate of about 15 percent, with the capital goods price growth rate back down to around 20 percent.

For the next decade, China's economy is likely to remain in a period of rapid growth, with the possibility of annual growth rates averaging 9 percent through efforts. As the Chinese economy has grown at an average annual rate of 9 percent during China's 15 years of reform, we are likely to be able to maintain this average for the next decade. But as the next decade is going to be one of higher economic growth rates coexisting with more inflationary pressures, controlling inflation will be a key mission for the decade, the key to whether we will succeed or fail in maintaining stable growth. We will be unable to ease China's inflation controls at any time. This will probably be the keynote of China's economic growth and inflation for the next decade.

A noteworthy matter is that if this keynote can be essentially achieved in the next decade, with no unexpected factors undermining it and, if China's exchange

rate can be sustained at 8.7 renminbi to the dollar, with the U.S. inflation rate at 3 percent, then China's currency will surreptitiously appreciate. Domestic inflationary pressures with overseas renminbi appreciation pressures is a matter meriting attention and study, a quite immediate one. China's future studies of inflation need to give more consideration to the factor of foreign exchange changes. If this analysis is roughly in line with reality, the RMB is likely to appreciate covertly 5-7 percent a year in the future, much like the Hong Kong dollar did in recent years. From an international perspective, an exchange rate of 10 renminbi to the dollar might bring heavy pressures. A nation like the U.S. would welcome such covert RMB appreciation, as its products would come in easier, while China's would go out harder. As the Chinese economy continues to grow, we will see ever-growing pressures in this area.

### III. Remedies To Control Inflation

In the history of the PRC, China has experienced four periods of quite high inflation. 1) Runaway inflation inherited from the KMT government during the early days of the PRC. 2) High inflation from 1959 to 1961. 3) Inflation from 1988 to 1989. 4) Inflation from 1993 to the present. During the first three periods of inflation, we adopted a brake-slammimg form of tight finance and credit to control inflation, taking roughly two years each time to bring it back down. China's inflation-control success during the early days of the PRC in particular could be called one of the marvels of world economic history.

But the problem is that in controlling China's current round of inflation, it has become very hard for us to continue to use the historically effective brake-slammimg method. This means that we first need to analyze the economic setting and features of China's current inflation, to explain why we cannot continue the brake-slammimg.

Through 15 years of economic reform, China has begun to establish a commodity economy. Meanwhile, we have successively established in recent years stock, futures, real estate, and foreign exchange markets. In 1994, we have begun systematic macroeconomic reform, with money markets just being established. China's current round of inflation that started in 1993 has appeared in the course of China's market-economy establishment, since China's traditional planned economy stepped down from the stage of history, and while China's economy has begun to take off. Since these major changes in China's economic setting, the continued effectiveness of past successful experiences has been thrown into doubt. If we continued to adopt China's traditional brake-slammimg form, this might have many adverse consequences, even producing many unexpected results. So unless forced to, we ought not to adopt again China's traditional brake-slammimg form.

1. The stock, real estate, futures, and foreign exchange markets that we are just establishing are all quite weak

ones, unable to withstand sharp shocks. If we adopted a severe double-tight policy, these four large markets might collapse, leaving stock values to fall sharply, and shareholders to sustain severe losses. As China now has 28 million shareholders, allowing China's stock market to collapse would obviously become a serious social problem, impacting China's political stability and unity. As China's real estate market establishment is occurring in conjunction with China's housing reforms, allowing China's real estate market to collapse would make it impossible to go on with housing reform, which might be delayed for many years before it could be restarted. And neither China's futures or foreign exchange markets could withstand severe shocks. As these four large markets are in a rudimentary stage, they still need a period of steady growth to mature into a complete system. So if we now applied a severe shock, China's establishment of these four large markets might be postponed for many years.

2. As China's economic reforms are also in a crucial stage, a sharp economic decline at this time would make it impossible to continue them. Russia's current economic reforms illustrate this point. China's 15 years of quite successful economic reform were inseparable from China's sustained economic growth during these 15 years. A sharp economic decline would unavoidably result in an economic-reform turnaround, with certain already shelved old methods being reapplied, inviting back directive planning and administrative means.

3. State enterprises could not withstand the crisis of a sharp economic decline either. For January 1994, China's output-value growth rate for state-owned industrial enterprises was only 2.9 percent, far lower than China's 19.9-percent industrial growth rate. If we adopted a severe brake-slammimg policy, the first to be affected would be state-owned industrial enterprises. While China's state-owned industrial enterprises are not very efficient, they are still the key enterprises in China's national economy, so that dragging down state enterprises would actually also pull down China's national economic-growth foundation. Of course, while state enterprises need to convert their forces, with state-enterprise property-rights relations also needing reformed to suit China's socialist market economy, a state-enterprise collapse would make such reforms impossible.

4. The current international climate is favorable to China's growth. In such an international climate, if we adopted an economic policy that would lead to sharp decline, we would actually be missing a chance to grow. As international capital is now trying to gain access to China, a sharp decline in the Chinese economy would make it impossible for international capital to enter. Of course, when the Chinese economy is faced with the threat of high inflation, international capital cannot gain access either. A steadily growing economy helps to attract foreign investment.

It is thus obvious that while "slamming on the brakes" can pull inflation down quicker, it can also cause a sharp economic decline, so that its side effects are too great. And in China's current economic setting, its side effects would be even greater. So to control inflation at present, we will need to adopt firm, gradual, and steady remedies to reduce inflation.

This so-called firm means that the government needs a clear approach and firm stance in controlling inflation. Unless the government is determined to control inflation, local governments and enterprises will not genuinely adapt to government control policy, rather waiting for a green light or even rushing the red one. And the individual sense of confidence in government will also decline. So the government needs to tell the public clearly that as long as inflation remains at a rather high double-digit level, the government will pursue a tighter economic policy, as well as putting it into practical effect.

This so-called gradual means that government inflation-control should adopt not a brake-slammimg form, but rather a soft-landing one. We should make an effort to pull inflation down below 10 percent over three years from 1993 through 1995. This will avert a sharp economic decline, preventing volatility.

And this so-called steady means that the force applied each year should be even, not fluctuating over time. Bringing inflation down steadily will also stabilize public inflation expectations, more effectively forestalling the impact of uncertainties. An even application of force will require policies to go into effect step by step, with gradual adjustments. In trying to put policies into effect all at once, the force may be either too great or too small, making it hard to ensure balance. As China's above analysis has shown that today's economic man is quite sensitive to policy changes, a too strong policy impact might cause unexpected consequences.

China's ability to pursue a firm, gradual, and steady inflation-control policy is directly related to China's awareness of the dangers of inflation.

Some now hold that as long as people can bear inflation without great stress, inflation does not need controlled. Certain key arguments of this theory are: 1. As long as individual incomes grow faster than inflation, the public can sustain inflation; 2. As individual incomes are now rising, there is a stronger capability to withstand inflation, with inflation under 20 percent roughly sustainable; 3. As long as the economy is still growing rapidly, individuals will benefit, so that the inflation danger is bearable. This understanding has already impacted to a certain extent China's inflation control, control methods, and theoretical studies of inflation controls.

In fact, the inflation danger is not simply a matter of "sustainability," but even more critically one of "signal efficiency." A crucial reason for China's move to a market economy is that market prices signal low costs

and high efficiency. China's past use of planned price targets to balance supply and demand actually did not balance supply with demand for tens of thousands of products, causing a series of abuses. While we have now begun to use market prices to guide supply and demand, market price signals do not work properly when inflation is high. When enterprise product prices rise, enterprises do not know whether the relative prices of their own products are rising (that the inability of their own products to meet demand is causing the price rise), or whether it is simply inflation that is rising. This leaves enterprises unable to set the supply volume of their own products, with market prices no longer playing the role of guiding a balance of supply with demand, and the market system unable to operate. If this continued, the whole national economy would be bound to be thrown into chaos.

It is thus obvious that while the public might be able to stand inflation, we must not pursue an inflationary policy. Inflation control must not be premised on sustainability. Emphasizing "sustainability" is actually deviating from theoretical economics studies, turning the matter into a social and political issue. Moreover, once the public is unable to sustain higher inflation, this is certain to be accompanied by a brake-slammimg policy. Of course, China's inflation controls still need to note the factor of public "sustainability." We need to pay attention to whether the public can "bear" not only inflation, but also the side effects of inflation controls. This is precisely why we have chosen the firm, gradual, and steady inflation-control policy. Pulling inflation down steadily will also help to support market price-signal forces. Volatile and uncertain inflation is an archenemy of market price forces.

In short, if we build markets on one hand, while pursuing an inflationary policy on the other, what would be the sense in establishing a market economy? Inflation control and economic reform are intertwined. Unless we prevent inflation, economic reform not only cannot be intensified, but also will fail. But adopting the traditional brake-slammimg form to control inflation at this stage would also be undesirable. As China's economic man is becoming more complex, with speculation capital sensitive to policy, China's stock, futures, real estate, and foreign exchange markets still weak, the necessity to support market price signals, and a series of other factors that could not withstand brake-slammimg, we still need to pursue a soft-landing form of inflation control, in an attempt to bring inflation down by 1995.

#### Commission Draws Up Plan To Reduce Enterprise Losses

94CE0558B Hong Kong CHING CHI TAO PAO /ECONOMIC REPORTER/ in Chinese No 19, 16 May 94 pp 26, 27

[Text] The State Commission on Economics and Trade recently proposed a target for enterprises to turn their losses into gains. It is requesting administrative offices of

all enterprises to make a house list of all losses and propose suggestions for resolving them, in a thorough one-plant and one-policy move to cancel out or reduce losses. All loss-incurring enterprises must set up a mechanism to tackle the loss by implementing a link-up between the workers' interests with loss reduction or cancellation. During the process, supervision and inspection are conducted periodically, meting out recognition and punishment as needed. With respect to loss-incurring enterprises included in the commission's followup audit, the leadership from local commissions on economics and trade (the economics commission, the planning and economics commission) must provide guidance to specific accounts, to help them resolve their real problems, transforming losses into gains.

The State Commission on Economics and Trade has proposed that differentiating treatment may be given loss-incurring enterprises, by suitably supporting those with hope of turn-around. In one situation, administrative offices in charge of specific occupational trades in areas with suitable conditions, must continue to raise and use the already available funds for loss-cutting, to focus on producing items requiring small technological improvisations and short turn-around time that the enterprise can produce during the year. They should also support the enterprise's new innovations, and help it meet short-term cash flow needs. In a second scenario, when all the commissions on economics and trade (the economics commission, the planning and economics commission), and financial and monetary agencies are planning how to use funds for various technological improvements, they must also arrange and set aside some funds to help loss-incurring enterprises to turn around. In a third situation, a plan is devised to seriously resolve the enterprise's historical debt after an audit of its assets and capital. In a fourth scenario, after the bank has made loans and set up a proportional management plan backed by capital assets, an interim method must be put in place to support loss-incurring enterprises with a hope of turn-around to carry out their production operations. Support should be given to others to step up overhaul of their product structure.

How can we resolve the mechanism of action in loss-incurring enterprises at the root? The State Commission on Economics and Trade feels that apart from continuing to implement "Rules on Changing the Mechanism in State-Owned Industrial Enterprises," and a soon to be announced "Asset Supervision and Management of State Enterprises," those enterprises in tune with the state's policy on assets, with a good chance of turn-around and favorable market outlook may be leased, transferred or merged. As for those enterprises saddled with long-term losses with no hope of turn-around, and assets are inadequate to cover debts, they must file for bankruptcy in a move to reorganize their organizational structure.

## PROVINCIAL

### Sichuan Official on Foreign Investment

94CE0543A Chengdu SICHUAN RIBAO in Chinese  
9 May 94 p 1

[Article by staff reporters Yao Zhineng (1202 1807 5174) and Luo Tianpeng (5012 1131 7720); "Omnidirectional Promotion of Sichuan Province's Opening Up to Outside World—Interview With Diao Jinxiang, Member of the Standing Committee of the Sichuan Provincial CPC Committee and Vice Governor of Sichuan"]

[Text] The second session of the Sixth Sichuan Provincial CPC Committee made a strategic decision concerning the further expansion of the opening up to the outside world in order to promote reform and development. Now, what is the situation with regard to the thorough implementation of this decision, what is the disparity between Sichuan and the coast, and what work needs to be done to implement the provincial party committee's decision? Bringing these questions with us, we availed ourselves of the opportunity of using the period in which the provincial party committee held a work conference to interview Diao Jinxiang [0431 6855 4382], member of the Standing Committee of the Sichuan Provincial CPC Committee and vice governor of Sichuan.

"The provincial party committee's strategic decision to give prominence to the opening up to the outside world has already obtained initial results." Coming straight to the point, Diao Jinxiang told us this. Since the provincial party committee made this decision last year, the provincial government, in its work this year, has put the expansion of the opening up in a prominent position, stepping up the work dynamics and getting a tight grip on implementation. In trade, foreign capital, foreign economic relations, foreign affairs, international tourism, and other main aspects of work concerning foreign affairs, clear and substantial results have been obtained, thereby vigorously promoting the sustained development of the entire province's economy. Take, for example, foreign trade and foreign capital importation: by the end of March the province had earned \$180 million in foreign exchange by export and had actually utilized \$20.86 million in foreign capital, a respective increase of 36.2 and 36.5 percent over the figures for the same period last year.

Diao Jinxiang looked back on the over 10-year development of Sichuan's economy. He thinks that the lag in opening up to the outside work has directly caused a wide disparity between Sichuan's economy and that of China as a whole. Relating the practice of the coastal region and Sichuan in recent years in expanding the opening up to the outside world in order to promote economic development, Diao Jinxiang said with deep feeling: Only if there is a major opening up can there be a major development. He analyzed the reasons for Sichuan's relative backwardness in opening up to the

outside world: first, there are the positional inferiority and the gap in fundamental conditions with the coast in Sichuan's development of an externally oriented economy, especially the inconvenient communications; second, compared with the coastal region, Sichuan's channels for attracting foreign businessmen and capital and for developing foreign economic relations and trade are relatively small and narrow; third, during the past more than 10 years, the fact that Sichuan is landlocked has made it difficult for Sichuan to receive the central authorities' policy tilt in the aspect of opening up to the outside world; and, fourth, compared with the coast, there exists a fairly large disparity in the concepts and actual work dynamics for opening up to the outside world. He thinks that, in developing Sichuan's economy, we must concentrate our strength on solving such problems as raising the funds needed for accelerating the development; adjusting the industrial structure, product mix, and enterprise organizational structure; as well as raising the level of management. There is a big difficulty in solely relying on our own strength and developing an internally oriented economy, and we must accelerate the pace of opening up to the outside world, and vigorously develop foreign economic relations and trade and import foreign capital. Facing the two markets and using the two kinds of sources of funds, to a great extent, will put Sichuan's economy on the same track as the world economy, and, on a fairly large scale, cause it to take part in the international economic cycle. This is the only way to promote Sichuan's economy.

To further step up the dynamics of opening up to the outside world, what new concepts and ideas must we establish? Diao Jinxiang thinks there are at least three: establish the idea of giving prominence to opening up to the outside world in order to promote reform and development; establish the concept of an omnidirectional opening up with the international and domestic markets as the guide; and establish the strategic idea of developing economic relations and trade on a large scale, forming an overall pooling of efforts in opening up to the outside world.

When the subject of opening up to the outside world is raised, some people reveal a feeling of inferiority, thinking that conditions in Sichuan are poor and the degree of difficulty in expanding the opening up to the outside world is too large. Diao Jinxiang said that at present the situation facing the opening up to the outside world is very good, and there are many extremely favorable opportunities. From the domestic situation he switched to the international situation, saying that Sichuan possesses many conditions, e.g., Chongqing and Chengdu have been formally designated by the state as "opening up to outside world" cities, and there are a number of medium-sized cities along the river in Sichuan that are being examined and approved for this title; the state has designated four development zones in Sichuan and they enjoy the benefits of the policy of opening up to the outside world; the province has designated 14 development zones, and in the province's

cities, prefectures, and autonomous prefectures there are 34 development zones, which provide fairly good conditions for the importation of foreign capital; and the state's implementation of the strategy of developing the Chang Jiang [river] Basin's economy and the Sanxia Project is about to start, and they will provide a turning point in Sichuan's comprehensive development of the policy of opening up to the outside world. Now, Sichuan's "opening up to the outside world" cities, the cities along the river, all types of development zones, important infrastructures and industries are becoming "hot points" of contention for investment by international consortiums and by large foreign commercial groups and major enterprises. In fact, Sichuan has become the key area in the opening up and development of China's southwestern and western regions. He expressed his belief that, provided the entire province, from top to bottom, strengthens its sense of urgency and sense of responsibility, makes clear the goal of opening up, and accelerates the pace of development, it certainly will make new breakthroughs in the development of an externally oriented economy.

Diao Jinxiang made no attempt to conceal the truth that, in Sichuan, with regard to the opening up to the outside world, there really exist some inferiorities. But at the same time he pointed out that Sichuan also has potential superiorities, and the key lies in whether Sichuan can display its strong points and avoid its weak points, create conditions for vigorously overcoming its inferiorities, and turn its potential superiorities into actual superiorities. He made an analysis: Comparing Sichuan with the coastal region, its disadvantageous conditions in the aspect of opening up to the outside world lie in not having the coast's geographical superiority, not having the coast's superiority in its relations with many overseas Chinese, and not having the superiority in the time difference of the policy tilt toward opening up to the outside world. However, we can, with Sichuan's scientific and technological superiority, natural resources superiority, and industrial superiority, create product superiority, and with this superiority infiltrate the international market and overcome our geographical inferiority; with Sichuan's market superiority, natural resources superiority, and manpower superiority, we can form a superiority in attracting foreign capital and overcome our inferiority in relations with others; and, with the enhancement of the opening up consciousness and the market economy consciousness, we can use well, use actively, and use sufficiently the current policy and current practice to reduce the coastal region's superiority in the time difference of the policy tilt.

When speaking of making clear the strategic goal of opening up to the outside world and of striving to achieve this year's struggle goal, Diao Jinxiang thinks that achieving Sichuan's struggle goal should start from making two improvements; first, raise the level of opening up to the outside world, and smoothly put Sichuan's economy on track with the international

economy; and, second, raise the proportion of the externally oriented economy in the national economy, and enhance Sichuan's competitiveness and the overall strength of the province. For this year's foreign trade struggle goal, effort from top to bottom should be made effecting five breakthroughs: first, earning foreign exchange by export; second, importing foreign capital; third, increasing the rate of foreign trade export; fourth, making a breakthrough in the total number of foreign contract projects and labor cooperation projects, and in border trade; and, fifth, make a fairly large breakthrough in the number, output value, sales income, and export of the "three kinds of enterprises." He stressed that, in order to achieve the abovementioned goals, we must emancipate the mind, open wide our train of thought, and unify action. In strengthening leadership, improving work methods, establishing powerful organizational structures, and selecting qualified outstanding talented persons, we must make new, major moves to form an overall pooling of efforts for an all-province opening up to the outside world.

At the end of the interview, Diao Jinxiang pointed out that, for the omnidirectional promotion of the opening up to the outside world, we must give prominence to getting a tight grip on the key points. He thinks that we must give prominence to getting a good grip on six things: strengthen construction of externally oriented industries and bases, and vigorously develop foreign trade; make the importation of foreign capital an important task in opening up to the outside world, get substantial results; take various measures to vigorously develop foreign economic cooperation and labor export; enhance infrastructure construction, and build good tangible and intangible conditions for opening up to the outside world; enhance Sichuan's propaganda work in foreign countries, and at present make good propaganda on Sichuan's holding in June of an international discussion and investment meeting; and strengthen Sichuan's leadership over the work of opening up to the outside world. He believes that, by doing these six things, putting into effect new methods and achieving organizational implementation, leadership implementation, policy implementation, and measures implementation, we can ensure that Sichuan's opening up to the outside world will go up to a new level this year.

#### Guangdong Government Shouldering 'Two Baskets of Eggs'

94CE05864 *Guangzhou YANGCHENG WANBAO*  
in Chinese 1 Jun 94 p 6

[Article by Li Huiwu (2621 1920 2976), Economic Development Research Center of the Guangdong Provincial Government: "Guangdong To Strike Balance Between Economic Development and Price Stability"]

[Text] The nation's composite retail price index rose 13.2 percent in 1993 and another 20.1 percent in the first quarter of this year. (The corresponding figures for

Guangdong are 18.2 percent and 20.5 percent, respectively.) Once again China finds itself in a dilemma, having to choose between "maintaining fast growth" and "checking inflation."

There are complicated reasons for the latest, fourth price surge. (It is generally agreed that China had earlier experienced three price surges—in 1981, 1985, and 1988—since price reform went under way.) Some are normal economic-growth-driven factors, some are underlying structural factors, and some are artificial factors.

As an economy develops, the level of social productive forces goes up and the quality of social commodity and labor improves steadily. Meanwhile, the costs of some of the more important economic resources will also go up. In particular, the social and economic costs of economic resources which are unrenewable or whose reproduction take a long time to show a steady upward trend. Even more important, the higher the level of economic development, the greater the social and economic costs of maintaining the reproduction of productive forces. Hence the increases in the prices of material commodities and labor. Not a single country, least of all developing nations in the economic take-off stage, can escape these kinds of price increases which have comprehensive and structural causes. In China, a budding market economic mechanism has turned the possibility of price increases as a corollary of economic growth into a reality. The acceleration of economic growth and reform in recent years has only fuelled price increases further. Unfortunately, both the way in which the economy grows and the way in which it operates are complicated dynamic processes where a host of factors interweave and interact. We cannot determine with precision how much inflation is actually caused by economic growth or the exact inflationary costs of price reform and economic structural adjustment.

Guangdong is one of the first provinces in China to decontrol prices and has one of the fastest growing economies in the nation. And it is also in Guangdong that the law of market price movement is most pronounced. Once again the issue of prices has emerged as the focus of social concern this year. My projection is that the composite retail price index for 1994 may exceed our set goal based on the fact that the inertia of economic growth and the lingering delayed effects of heavy investment will upset the balance between supply and demand. Another reason is that the new fiscal and tax systems objectively put a heavier burden on enterprises, subsequently reflected in prices. Third, the introduction of a uniform exchange rate system has resulted in a significant devaluation of the renminbi, hence imported inflation and the inflationary expectations of the public. Fourth, across-the-board price adjustments by the departments and institutional units have driven up consumption demand sharply, which in turn results in more expensive consumer goods. Meanwhile, as we remain in transition from the old system to the new, an

effective and coherent macroeconomic regulatory and control system has yet to take shape, which complicates the task to hold down the overall price level. It is true that the huanbi retail price index has shown a downward trend since April and that the constant index will be on the low side after June this year relative to the inflation rate in Guangdong in the second half of last year. Nevertheless, because of the several above-mentioned factors working together, the province's retail price index will still rise substantially for the year as a whole.

If the price index continues its double-digit climb, not only will the existing relaxed economic environment give way to one much less hospitable, but the investment climate in the province and the competitiveness of its products will also suffer, perhaps even breeding social instability. Fortunately, price increases have been accompanied by an overall improvement in the standard of living of the people of Guangdong. The incomes of urban households rose 32.5 percent or 7.7 percent after adjusting for inflation in the first quarter, enabling them to cope with inflation to a certain extent. Moreover, governments at all levels take the price issue most seriously. The provincial government has set up a high-level price regulation and control leading group. The provincial price inspection group has fanned out across Guangdong. All over Guangdong moves are afoot to launch the "price-labelling" system. Efforts are also under way to intensify "rice sack" and "food basket" work.

By and large the macroeconomy in Guangdong is still in good shape. Price increases point to weaknesses in the economy and the regulatory and control system, but they also leave no doubt as to what the goals of future reform should be. Based on what he has learned from his own research, this writer believes we must work hard in these four areas if we are to avoid frequent and sharp price fluctuations:

1. Familiarize decision-making agencies with the basics of the market economy without delay. In its preliminary stage the Chinese socialist market economy is heavily tinged with Chinese characteristics. However, when we look at the most basic elements and objective principles, there is much that is common to all market economies. We should have the courage to emulate experiences proven successful in developed nations and firmly jettison the policy-making mentality and behavior of the traditional planned economy, which is open to personal prejudice, ignores objective principles, and is prone to interfering in the operations of the economy by resorting to administrative fiat. Also we must be on guard against retreating to the old rut of the planned economy as soon as we encounter some economic problems.
2. Establish a macroeconomic provincial-level advance warning system as soon as possible. Currently the State Statistics Bureau is testing its advance warning model that is expected to provide the central government with a basis for macroeconomic policy-making. Macroeconomic regulation and control, however, is something

that should be conducted by governments at two levels—central and provincial—cooperatively. The government of Guangdong should waste no time in organizing the departments involved in designing and perfecting the province's own economic advance warning system. Such a system should include a body of quantified indicators, qualitative measurements, the appropriate adjustments, and a variety of emergency measures.

3. Enhance the sensitiveness of the macroeconomic regulatory and control system without delay. As the market economy gradually takes shape, the pace of social and economic operations will quicken rapidly. Faced with a market that is ever-changing and tens of thousands of enterprises with considerable decision-making power, the government must work to ensure that its own macroeconomic regulatory and control system becomes sensitive enough to respond immediately to myriad changes. It also must adopt the correct measures to ensure that society and the economy continue to function properly amid endless micro-adjustments and prevent lags in the macroeconomic regulatory and control system and mistiming in policy-making from disrupting the economy extensively.

4. Put the maintenance of price stability at the center of macroeconomic policy-making. Inflation is a price we must pay to speed up reform and economic development. At the same time, however, runaway price hikes are a major constraint on reform and development. For this reason, the government must effectively regulate and control economic growth and balance such growth with the price index flexibly and strategically. Moreover, it must acquire a scientific handle on the intensity of major reform and be able to introduce a piece of reform at the right moment and coordinate one reform with the others. Price reform cannot go it alone for long. Only when it is accompanied by corresponding reforms in the banking system, distribution system, administrative system, government functions, and macroeconomic regulatory and control system can we ensure an ideal market environment for the economy. After all, the government must remind itself at all times that it is carrying two baskets of eggs—economic development and price stability—on its shoulders.

## FINANCE, BANKING

### Article Views Rapid Capital Market Development

94CE0557A *Beijing CAIMAO JINGJI /FINANCE AND TRADE ECONOMICS* in Chinese No 5, 11 May 94  
pp 34-39

[Article by Huang Zhiling (7806 1807 0407), Center of Economic Studies, State Planning Commission: "Capital Markets Diversify Amid Rapid Growth"]

[Text] In the wake of sustained rapid economic growth and the deepening of reform and the open policy, China's capital markets made substantial progress in 1993. Not only did the capacity of the markets expand

swiftly, but the market system also improved by the day, tentatively forming the framework of a modern capital market. At present the major channels of capital formation in China are the financial and investment markets, including the bank credit market, stock market, treasury bond market, enterprise bond market, and fund market; direct accumulation by the government and enterprises; the foreign exchange market; and the foreign capital investment market. Since credit plays an increasingly important role in the economy and since capital formation takes place more and more on the financial market, direct accumulation investment by both government and enterprises has effectively become financialized or taken the form of credit. For this reason, capital markets in China today basically consist of these two major groups: domestic financial investment markets and international capital circulation markets. Obviously the capital markets make up a complex system featuring a variety of investment tools. To analyze short-term changes in the development of capital markets, we must focus on the major more volatile markets. Although the bank credit market accounts for a major share of the capital market right now, it still smacks of the traditional planned economy and the market continues to play a relatively limited role in the operation of credit funds. Thus it is not a real credit market. We may say that although a credit market exists formally, what is lacking is the credit market mechanism of a modern market economy. This statement is particularly true considering that bank credit reform in 1993 failed to make substantive progress of a breakthrough nature; the operating features of the bank credit market have hardly changed in a major way. Turning to the treasury bond market, there has been a rapid increase in the volume of bonds issued in recent years. Nevertheless, the issue market is basically sustained administratively and the circulation market has remained fairly stagnant. There was a burst of activity in 1992 at both the issue and the circulation levels, but it was short-lived. The following year the bond market reassumed its dependency on the administrative machinery to sustain its operations (keep it going). As a result, the bond market today is not all that different from the bond market of the past. As for the enterprise bond market, it has been characterized since birth by reckless fund-raising on the part of enterprises and a public investment mentality that saw bond buying as all profit and risk-free. Already by the first half of 1993 there was severe financial disorder, forcing the central government to crack down on it to reimpose discipline. China's enterprise bond market, therefore, is not an enterprise bond market in the normal sense of the word. This was true before June 1993 when financial rectification went under way. After June 1993, the government moved to straighten out the financial order, but instead of making the formulation of rules for the modern enterprise bond market its top priority, it limited itself to restricting the volume and tightening administrative examination and approval procedures. Financial rectification had hardly any corrective effects on an already grossly distorted enterprise bond market; if anything, it

has further magnified existing distortions. By the two criteria of quantitative change and qualitative change, it is the stock market, fund market, and international capital circulation market, among all capital markets in China, that underwent the most extensive changes in 1993. To analyze the development of China's capital markets today, therefore, we should concentrate on changes in the three markets mentioned above. And in analyzing the international capital circulation market, we should zero in on the relations between the Chinese and Hong Kong capital markets.

### 1. Development of Stock Market and Development Strategy

The development of the stock market in China is closely interwoven with the reform of enterprises through the adoption of the shareholding system. According to incomplete statistics, 9,440 enterprises joined the ranks of shareholding enterprises in 1993, specifically 2,968 shareholding companies and 6,472 companies of limited liability. In addition, 1,776 internal shareholding companies also came into existence. At present there is a total of 13,000 shareholding enterprises across China. According to the information office of the State Restructuring of the Economic System Commission, shareholding enterprises are widely distributed all over the country and can be found in all provinces, municipalities, autonomous regions, and cities with provincial-level economic decision-making authority, including Tibet.

The stock market grew by leaps and bounds even as the number of shareholding enterprises kept going up. Currently shareholding companies in China are divided into public companies and directional fund-raising companies depending on how their capital is raised. Consequently, the shares issued by public companies are traded mainly on the Shanghai and Shenzhen stock exchanges, while the legal person shares of directional fund-raising companies are traded primarily on the STAQ system and NET system. As for the legal person shares issued by public companies, some are traded on the Shenzhen and Shanghai stock exchanges, others on the STAQ and NET systems.

Nineteen ninety-three was a banner year for the trading of personal shares issued by public companies, a year characterized by the following. First, the volume of trading has reached a substantial scale. For the year as a whole 120 companies issued stock for trading on the stock exchanges. Altogether 215 kinds of stock were listed for trading on the two stock exchanges in Shanghai and Shenzhen. Specifically, 123, or 57.21 percent, were listed on the Shanghai Stock Exchange and 92, or 42.79 percent, were listed on the Shenzhen Stock Exchange. The Shanghai Stock Exchange had 101 kinds of A shares and 22 types of B Shares, yielding a ratio of 1:0.22. The Shenzhen stock exchange had 73 A shares and 19 B shares, yielding a ratio of 1:0.26. Turning to the volume of trading, there were 23,159,000,000 transactions involving A shares in 1993, including 13,663,000,000, or

59 percent of the total, on the Shanghai Stock Exchange, and 9,496,000,000, or 41 percent, on the Shenzhen Stock Exchange. The total value of A shares traded in 1993 stood at 418,707,000,000 yuan, specifically 237,982,000,000 yuan, or 56.84 percent, on the Shanghai Stock Exchange and 180,725,000,000 yuan, or 43.16 percent, on the Shenzhen Stock Exchange. As for B shares, 108 million shares changed hands in 1993, 101 million shares, or 93.5 percent, on the Shanghai Stock Exchange, and 6,748,000 shares, or 6.5 percent, on the Shenzhen Stock Exchange. In all 1993 the total value of B shares traded based on the prevailing exchange rate was 3,761,000,000 yuan, specifically 3.73 billion yuan, or 99.2 percent, on the Shanghai Stock Exchange, and 31 million yuan, or 0.8 percent, on the Shenzhen Stock Exchange. Secondly, the impact of stock trading on economic development is rising by the day. Today there are hundreds of stock brokerages in China with almost 1,000 trading outlets, the number of shareholders tops 25 million nationwide, and over 50 million people are involved in the stock market. The expansion of the stock market has offered companies whose stock are traded on the stock market new opportunities for growth and spurred the transformation of the enterprise operating mechanism. According to surveys by the appropriate authorities, companies listed on the stock exchange have implemented each and every one of the 21 decision-making powers granted by the state to enterprises, with the sole exception of the power to refuse to pay apportioned expenses. The 12 Shanghai companies whose shares are traded on the stock exchange increased their profit anywhere from 35 percent to 400 percent in 1992 and from 44 percent to 274 percent in the first half of 1993. Meanwhile, the stock exchange has also exerted considerable external pressure on the managers and operators of companies whose shares are being traded on the stock market. They are required to disclose their credit standing and the state of their finances regularly or face penalties. Market ups and downs are having an increasing impact on a company's reputation. Third, the growth of the stock market has been inconsistent and uneven, characterized by an excess of wild fluctuations. In the first half of 1993, there were overly rigid restrictions on the issue of new shares. With demand outstripping supply, what resulted was an abnormal stock fever. In the second half of the year, the market was inundated with millions of shares within a short period of time. This combined with the loopholes in the stock market as well as market mismanagement to push the stock market index on a prolonged downward slide, punctuated by several short-lived rallies. The wild gyrations on China's stock market in 1993 had something to do with a host of speculative factors. But at a time when there were more good news than bad and given the fact that the economy expanded 13 percent in 1993 and is poised for another year of robust growth in 1994, the overheating of the stock market in the first half of 1993 and its prolonged slump in the second were largely inseparable from the uneven pace of stock market expansion.

China's legal person stock market also grew considerably in 1993. Altogether 14 enterprises joined the legal person stock market outside the regular stock exchange and 17 companies had shares traded on it. Specifically the shares of 10 companies or 58.8 percent were traded on the STAQ system, while the shares of seven companies, or 41.2 percent, were traded on the NET system. For the year as a whole, 2.22 billion shares changed hands, a 28-fold increase over 1992; 1.77 billion shares, or 79.7 percent, were traded on the STAQ system and 450 million shares, or 20.3 percent, were traded on the NET system. The combined value of legal person shares traded was 7.3 billion yuan, up 52-fold over 1992. Specifically, 5.5 billion yuan worth of shares, or 75.3 percent of the total, was traded on the STAQ system and 1.8 billion yuan, or 24.7 percent, was traded on the NET system. The number of legal person organizations involved in investment increased from 1,400 to almost 30,000, a 21-fold gain. The rapid development of the legal-person stock market has had positive effects on the economy and financial development. First of all, it has rounded off China's capital market system. Between them, the STAQ system, NET system, the Shanghai Stock Exchange, and the Shenzhen Stock Exchange make up a family of capital markets in which the legal person stock market and individual stock market complement one another, powerfully boosting reform through shareholding in China. Second, the development of the legal person stock market in China has created an objective economic requirement for enterprise acquisitions, mergers, and reorganization, the optimal reallocation of capital goods, the transformation of the enterprise operating mechanism, and the diversification of key investors. Furthermore, because the legal person stock market is still untouched by excessive speculation, the costs of the circulation of stock remain relatively low, which facilitates the formation of a modern property rights exchange where mergers, acquisitions, and stock purchase can co-exist. Third, the development of a legal person stock market makes it possible to achieve the reform goal of converting state enterprise assets into stock. For years we have been plagued by the problem of the declining quality of state assets. Now the legal person stock market gives us a shot at structural adjustment through the market. Needless to say, legal person stock remains a highly controversial issue today. The existing Company Law distinguishes between two kinds of stock, priority stock and regular stock, in accordance with standard rules, but does not differentiate between legal person stock and natural person stock in the interest of stock equality. It seems that we should logically put an end to the debate surrounding legal person stock. In practice, however, legal person stock will not cease to be controversial just because of the unveiling of the "Company Law." On the one hand, questions surrounding legal person stock will remain an objective fact, questions that will not be fully answered in the next couple of years at least. For this reason, the present bifurcated pattern in which natural person stock and legal person stock circulate in two separate channels will be with us

for some time to come. On the other hand, even when the concept of legal person stock no longer exists at some point in the future, the phenomenon of legal persons owning stock in one another will remain, along with the problem of how such stock should circulate. Directional fund-raising has a large capacity, capital is made available promptly, and the costs of fund-raising are low. These characteristics are particularly suited to many large-scale development projects. Accordingly I expect many localities to continue to seek a middle ground between public fund-raising and the Company Law for a long time to come. Personally I strongly support a speedy integration between legal person stock ownership and natural person stock ownership. Nevertheless, I hope this will be done at an opportune moment in a way that will help spur economic growth and boost the development of capital markets. By and large such a moment has not yet arrived, nor has enough research been done to find a unification method. Accordingly the circulation of legal person stock should continue to expand under on-going regulation.

Considering everything—China's economic development potential and momentum, the requirements of economic structural reform, public enthusiasm for investing in the stock market, and the level of management of the stock market at present, China's stock market today is still in its early stage of growth and has a long way to go. The task of developing the stock market remains an arduous one. Looking ahead to 1994 and 10 years beyond, our top priority is the stable development of the stock market amid regulation. All major reform measures to be introduced in 1994 and thereafter will have an impact on the development of the stock market, creating both an opportunity and a challenge. Guided by the broad considerations of promoting economic growth and ensuring the stock market's healthy development, the government agencies involved should adjust the intensity of reform in a timely way. Securities investors and companies whose stock are traded on the stock market should also promptly modify their expectations regarding government protection and policy preferences and improve their ability to shape the laws of the market. The result will be something new: government and the private sector working together to develop the stock market.

## 2. Rapid Rise and Development Direction of Investment Fund Market

Nineteen ninety-three has been referred to as a "fund year" in China, a time when investment funds, emerging suddenly as a new force on the capital market horizon, experienced explosive growth. According to information provided by the financial management department of the People's Bank of China, 43 investment funds had been set up nationwide by late 1993, including 15 created that year. The scale of the funds expanded 77.8 percent in 1993 compared with 1992; 23 funds had stock traded on the market, almost all of them going public in 1993. The rates of return of most funds ranged between

20 and 30 percent. Typically funds are traded on the market at prices twice their face value. Trading on the market was active. There are six exchanges across the nation. One fund is being traded on the Shanghai stock exchange, seven on the Dalian stock exchange, seven on the Shenyang stock exchange, two on the Tianjin stock exchange, five on the Wuhan stock exchange, and one on the Nanfang stock exchange. In addition, the trading counters of many securities dealers also provide trading services. In terms of the scale of individual funds issued domestically, the smallest was 20 million yuan and the largest close to 600 million yuan.

China made significant progress in overseas fund issue in 1993 even as the domestic fund market underwent rapid growth. The Bank of China Trust and Consulting Company set up the Zhongan Growth Fund jointly with the Bermuda AETNA Investment Management Holdings Ltd and Yinyue (Hong Kong) Co., Ltd. Capitalized at 200 million yuan and closed for 10 years, the fund will raise funds on capital markets in Europe, the United States, Hong Kong, and Macao investment in enterprises in China whose stock are not traded on the stock market. Nine Chinese financial institutions have set up the "Shanghai Pacific Technical Investment Fund," capitalized at \$20 million, in Shanghai as a joint venture with the Boston Pacific Technological Investment Fund in the United States. In partnership with the Runtai Group of Taiwan, Shanghai International Trust and Investment Company has set up the Shanghai Development Fund to raise \$150 million overseas, 75 percent of which will be invested in enterprises in Shanghai and its surrounding areas with no stock being traded on the stock exchange, and 25 percent to be invested in Shanghai B shares and China concept shares issued overseas. At the request of the former Ministry of Aviation Industry, the Hong Kong Tianli (International) Investment Co., Ltd set up the China Aviation Fund. Its first sum of money totaling \$95 million has been handed over to eight aviation machinery manufacturing plants in China. Its stock is being traded on stock exchanges in Europe. Preparations are under way to raise the second group of funds. In addition, the China Merchant Steam Navigation Company, Ltd has put together the China Fund in Hong Kong and 34 large state enterprises are making plans to set up the China Enterprise Development Fund in cooperation with Hong Kong Jiayin International Group.

The rise of investment funds in 1993 was inherent in the development of capital markets in China. The investment fund originated as a trust tool. In China, the trust business first gained popularity and grew to a considerable scale back in the 1980's. It targeted legal persons as its clients from the very beginning and concentrated on the wholesale of short-term funds. Its interest rates too fluctuate at levels close to the interest rates banks pay their depositors or charge their borrowers. For this reason, the investment fund was not readily usable by the man on the street. This kind of trust investment market was a logical product of the 1980's when finance-consciousness was low among members of the public and

legal person short-term borrowing had a dominant place. As a supplement to the state banks and filling a gap left by the credit market, the trust investment business objectively made rapid headway in that decade. Since 1990, particularly after 1992 when China unequivocally adopted the creation of a socialist market economy as the goal of reform, the capital markets entered a stage of all-round development and household savings have become the principal source of funds for capital markets. Furthermore, in the past people delayed consumption and saved as a hedge against inflation. Now they set their sights on appreciation and raising their level of consumption. Thus instead of putting their money in banks, a move that is high on security and stability but low on risk and return, people have turned to other direct investment tools which carry higher risks along with higher returns. The upshot is the outflow of household savings from the bank credit market to the stock and bond markets. The direct short-term fund-raising market is a capital market that is relatively risky and technically quite demanding, requiring investment skills not mastered by every investor. In these times of economic transition, moreover, there is no way people can effectively avoid or take up the risk that goes with the direct fund-raising market. This objectively requires the financial market to provide a new investment tool to satisfy the needs of those investors who cannot, will not, or just find it inconvenient to participate in the direct investment market but who nevertheless want to do so. Logically speaking, this change in public investment needs should have created an excellent opportunity for growth for the trust business. As we noted above, however, China's current trust investment business is essentially geared toward legal person short-term fund raising and cannot readily meet the investment needs of members of the public. Hence the emergence of funds, with their experts buying and selling securities and investing in high-risk high-yield projects on behalf of private citizens and other investors. Given their strong development momentum, the investment funds have become a vital new force in the development of capital markets in China in the 1990's.

Certainly, the fund investment market in China remains in its infancy. It is highly influenced by the stock market in its method of operations and even takes its cue from the latter to a large extent. Compared to the stock market, the various rules and laws governing the fund investment market appear even more flawed and incomplete. Based on the principles of development of fund markets overseas and in light of the current state and development requirements of the fund market in China, I believe it is imperative that we come to grips with the following as we develop the fund market in the future. For starters, emphasize the role of the fund market in China's capital market strategy. Since the fund market is the most essential component of the modern financial market as well as the base that can catapult the modern financial market to further growth, we must heighten our understanding of the fund market and favor it in our

development strategy and macroeconomic policies, dispelling some of the unnecessary misgivings and artificial barriers. Second, the fund market must be integrated with the existing trust market and securities market as soon as possible. This is why. The fund market is a kind of retail market in the overall scheme of things. Only by linking the trust market whose business is wholesale with the securities which is mainly retail-oriented can we speed up the normal circulation on the capital markets. Third, the fund market must move toward professionalism, specialization, and diversification. If all funds have the same investment objects, not only will they fail to meet the households' diverse investment needs, but they will also fail to satisfy the needs of capital markets for diversified fund sources. Overall diversification takes the form of specialization by the various funds. In the absence of such specialization, the diversification of the fund market will be hard to come by. The specialization of investment funds is based on the use of experts in fund management. And the presence or otherwise of an army of experts determines whether the fund market will continue to grow healthily on a long-term basis. This is something we must understand clearly. A matter of equal urgency is to speed up the formulation of a range of laws and regulations for investment fund management as well as rules governing the trading of stock issued by funds. Just as urgent is the tightening of the supervision of funds across the board, from their establishment to their operations.

### 3. Relations Between Chinese and Hong Kong Capital Markets: Present Situation and Prospects

The development of capital markets is an important part of China's drive in the 1990's to create a socialist market economy and perfect the modern market economy. As a developing country in transition from the traditional planned economy to a modern market economy, China has an edge in many ways over other nations also trying to make the shift to a market economy when it comes to developing capital markets. One advantage unique to China is its proximity to the international financial center of Hong Kong, scheduled to be returned to China in 1997. Any analysis of the development strategy of China's capital markets, therefore, must include an in-depth study of the current status of the relations between Hong Kong and Chinese capital markets, thus placing the development of China's capital markets in the larger macro-climate of the entire international capital market.

Hong Kong's capital market essentially consists of the bank credit market, stock market, and foreign exchange market. In Hong Kong, banks belong to any one of three levels, depending on the size of their assets, the size of their capital, and the way they are regulated by the government. On the first level are licensed banks, which must be capitalized at no less than \$150 million and have a license issued and signed by the governor of Hong Kong. On the second level are restricted licensed banks. They must be capitalized at no less than \$100 million and have a license issued and signed by the Financial

Secretary. On the third level are deposit-taking companies, which must be capitalized no less than \$25 million. Licenses for deposit-taking companies used to be issued by the office of the commission of banks in the finance branch of the Finance Secretariat. After the finance branch was replaced by a management bureau, they are issued and signed by the office of bank supervision in the bureau. As of late 1993, there were 170 licensed banks in Hong Kong. Of the top 100 banks in the world measured in terms of assets, 79 do business in Hong Kong, including 73 licensed banks, providing almost the entire range of banking services that can be found in the world today. The combined assets of Hong Kong's banking system exceed \$6,000 billion, half of them in the form of bank loans. Based on the current exchange rate of HK\$1:1.12 yuan, the total assets of Hong Kong's banking system at the moment is twice that of the combined assets of all state banks and credit cooperatives in China. Hong Kong's stock market currently ranks seventh in the world and is the second most important in all Asia. Its market price exceeds HK\$2,300 billion and the Hang Seng Index soared to a high of 11,888 points by year end. Of all stock markets in the world, prices on the Hong Kong Stock Exchange appreciated faster than anybody else with the exception of that in the Philippines. Meanwhile, trading on Hong Kong's foreign exchange market has also been very active. Over \$60 billion worth of foreign exchange transactions take place every day on the average, making Hong Kong the world's sixth largest foreign exchange market.

Because of special geographical advantages, the ties between Hong Kong's and China's capital markets are intimate and extensive. A detailed analysis of these intimate and extensive ties suggests that they mainly consist of the following aspects. Firstly, the uninterrupted opening of China has met a major requirement for the development of the financial industry in Hong Kong and solidified its position as an international financial center. Between 1978 and 1992, bilateral trade grew 57-fold, with Hong Kong exports to China increasing 926-fold. About 80 percent of Hong Kong's manufacturers have moved their production plants to China, employing over 3 million people in south China alone, five times the manufacturing work force in Hong Kong. The steady expansion of economic relations and trade between Hong Kong and China has been a powerful boost to Hong Kong's financial industry. Between 1978 and 1992, deposits in Hong Kong banks, bank loans, and combined bank assets grew 20.4-fold, 25.3-fold, and 30.1-fold, respectively. In 1978, the financial industry provided jobs for 2.6 percent of the economically active population; by 1992, the proportion had jumped to 5 percent. Second, since China opened to the outside world, Hong Kong has become its top investor. The forms of investment too now feature a combination of direct investment and indirect investment, instead of consisting solely of direct investment, as was the case in the past. According to incomplete statistics, Hong Kong

investments in China already accounted for 60 percent of all foreign investments in China. Over \$10 billion worth of Hong Kong currency are estimated to be circulating in south China these days. Thirteen Hong Kong banks have set up a total of 35 branches and 24 offices in China. About two dozen "China funds" have been established on Hong Kong's capital market for investing in China's B shares and Chinese enterprises. Because of their optimism about the Chinese economy, investment funds from Japan, the United States, and Europe have flocked to Hong Kong's stock market, gradually steering it in the direction of a fund market. Third, as China becomes more and more open to the outside world and Hong Kong's standing as an international financial center strengthens, Chinese capital has also begun to play an active role in the Hong Kong market, further stimulating Hong Kong's capital market. First of all, mainland China holds investment recruitment and trade and economic talks in Hong Kong, creating a heavy investment demand for Hong Kong's capital market. Altogether 28 investment recruitment sessions and economic and trade meetings had been held by the end of 1993, signing foreign capital utilization agreements worth more than \$20 billion. Thirdly [as published], as a result of ever-growing financial and trade contacts between the two places, there has been a substantial outflow of Hong Kong dollars into the interior, which, however, ultimately makes its way back into the inter-bank lending market in Hong Kong through the off-shore Hong Kong dollar market and as such is the principal source of offshore Hong Kong dollar funds that close the Hong Kong dollar deposits-loans gap. Third, in the wake of the Chinese Government's decision to allow travelers to take 6,000 yuan with them when they leave China, it is estimated that there are now in Hong Kong 10 billion yuan converted into the local currency. Moreover, given the ever-rising international standing of the Chinese currency, as indicated by the current trend, the presence of the renminbi in Hong Kong will no doubt be a shot in the arm for Hong Kong's foreign exchange market. Fourth, banks on the mainland have also been working hard to tap the Hong Kong capital market. In addition the Zhongyin Group, the Chinese Agricultural Bank, Guangdong Development Bank, Xiamen International Bank, and China Merchant Steam Navigation Bank have also joined the scramble to set up finance companies or offices in Hong Kong. Others too are readying themselves for the move to Hong Kong. Fifth, already Chinese enterprises are knocking on the door of the local stock market. So far six enterprises, namely the Qingdao Beer Company, Guangdong Shipbuilding Company, Shanghai petrochemical works, Mashan iron and steel complex, and Kunming machine tools company have successfully issued H shares in Hong Kong. More enterprises are expected to issue stock in Hong Kong in the not too distant future. At present, red letter shares and China concept shares account for one-third of the market value of all Hong Kong stocks. That percentage is set to rise in the future. Sixth, Chinese enterprises in Hong Kong serve as a bridge between the capital markets

in Hong Kong and China, energizing them as well as integrating them. In the first nine months of 1993, just four Chinese-funded enterprise groups in Hong Kong—Zhongyin, Huarun, Zhonglu, and Zhongguo Haiwei—invested a total of \$1.5 billion in China, 18 percent of Hong Kong's total actual investments in the mainland. Meanwhile, direct investment by mainland enterprises in Hong Kong has also risen strongly and is estimated to total \$20 billion, making China the largest external investor in the Hong Kong area. Fourth, Hong Kong has now become the meeting point between China's capital markets and international capital markets. As far as Chinese enterprises are concerned, Hong Kong's capital market represents a shortcut whenever they want to raise capital or invest overseas. This is well known. However, it is only recently that the foreign investor realized the advantages of investing in China through the Hong Kong capital market. The United States, for instance, had a combined investment of \$8.54 billion in Hong Kong as of late 1992, making Hong Kong the largest recipient of U.S. investment dollars in the Asian Pacific area after Japan and Australia. At present there are over 900 U.S.-funded businesses in Hong Kong, including 200 or so regional headquarters, which hire a total of 200,000 workers, more than 7 percent of Hong Kong's work force. Within the financial industry itself, in 1992 U.S.-funded financial institutions in Hong Kong included 15 licensed banks, eight restricted licensed banks, and 15 deposit-taking companies, with \$38.85 billion in combined assets, 5.3 percent of the total assets of the local banking system. Following the talks between President Jiang Zemin and President Clinton in Seattle in November 1993, U.S. capital has come to regard Hong Kong as the principal window on investment in China. Fifth, securities regulating agencies in Hong Kong and China as well as their stock exchanges have entered into close cooperation in the field of securities supervision, not only paving the way for Chinese enterprises to list their shares on the Hong Kong market, but also providing legal protection for Hong Kong and international investors who buy shares in Chinese enterprises. In June 1993 the Securities Supervision and Control Commission of China, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, Hong Kong Securities and Futures Commission, and the Hong Kong Federation of Stock Exchanges signed the "Sino-Hong Kong Supervision and Management Cooperation Memorandum" at the Great Hall of the People in Beijing, thus creating a regulatory framework for Chinese enterprises whose shares are traded on the Hong Kong stock exchange, augmenting protection for investors, and ensuring that rules and regulations governing the stock markets on both sides are complied with. Regular contacts and personnel exchanges to promote consultation and cooperation, moreover, symbolize that the ties between the Hong Kong and Chinese capital markets and the integration between Chinese capital markets and their international counterparts have reached a new milestone.

As China becomes even more open to the outside world in the 1990's, China's capital markets will also become a crucial component of the international capital markets. Hong Kong will play a critical role both in the rising internationalization of China's capital markets and in the on-going infusion of international capital into the Chinese markets. In mulling over and designing a strategy to enhance its standing as an international financial center, therefore, Hong Kong must fully consider the China factor. China, for its part, should likewise give full consideration to the favorable factor known as Hong Kong when it works out its own capital market development strategy. First of all, in determining the spatial distribution of capital markets, we should pay special attention to specialization and cooperation between capital markets within China, on the one hand, and Hong Kong capital, on the other. Consider these possibilities: Turn Hong Kong into a financial supermarket for Chinese enterprises which want to raise capital overseas or invest overseas and build up Shanghai as a domestic financial supermarket. As for the capital market in Shenzhen and those in other cities yet to materialize, it would be best if they can be developed into regional specialized financial markets. Such considerations are not based on any critical value judgments but are prompted by a desire to put an advantage to the best possible use and reap the benefits of economies of scale derived from specialization and cooperation. Needless to say, Shanghai too has the potential to develop into an international financial center, although it is not equipped to operate on a large enough scale in the next several years at least. Second, we must intensify the making of laws, regulations, and policies pertaining to the development of capital markets within China. Substantial progress has been made, it should be noted, in this kind of capital construction for China's capital markets in recent years, but the capital markets remain very backward. The main problem is the lack of a coherent body of rules and regulations. Rules, regulations, and policies governing the capital markets have indeed been introduced in the last few years, along with a company financial system and accounting system. Compared with the conventional practices in the world, however, they are still heavily colored by the traditional planned economy and are not as consistent with the principles of the modern market economy as they should. As such they fail to meet the needs of investors and hinder the integration between China's capital markets and their international counterparts. Accordingly, we must expeditiously straighten out and adjust the relevant existing rules, regulations, and policies in accordance with the needs of the modern market economy and international practices and introduce a new coherent body of laws, regulations, and policies that will accelerate capital market development. Furthermore, capital markets must be made even more open. On the one hand, in the field of direct investment, yet more restrictions on foreign capital should be lifted. In addition, the scope of indirect investment open to foreign capital

should be widened. The scope of operations of foreign-funded financial institutions should be broadened steadily. With a view toward offsetting the weaknesses in China's financial system, we should now concentrate on attracting to China's capital markets foreign institutional investors, the investment consulting industry, and the insurance industry. On the other hand, even as we further open up China's capital markets, we should encourage Chinese financial institutions and enterprises to join the international capital markets by making the most of bilateral and multilateral government-to-government economic cooperation agreements, increasing their capital raised overseas and their foreign investment relative to the sum total of their economic activities. This kind of two-way capital market opening and capital inter-flow will bring China's capital markets and their international counterparts even closer together. It will also accelerate the circulation and movement of capital.

#### Foreign Debt Tolerance Analyzed

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#### [Text] I. Analysis of the Foreign Debt Situation and Special Characteristics

China's foreign debt balance stands at \$70 billion, and a peak period for debt repayment is approaching. How to get the economy safely through this debt repayment peak period to lay a foundation for economic development during the 1990s is the key task in management of the country's foreign debt today. During the past more than a decade, China's policy of contracting foreign debt has scored remarkable successes, becoming an extraordinarily important factor in economic development. However, one should also realize that some problems that cannot be shrugged off exist in management of the country's foreign debt. They require our full attention.

#### A. Too Sudden Expansion of the Amount of Foreign Debt Causing Down-Stream Pressures in Controlling Amount of Debt and Repayment

Although China has a low foreign debt in per capita terms, its rate of increase has consistently surpassed the annual growth rate. This increase is already exerting latent pressures on the amount of foreign debt and debt repayment. Every year since 1980, except for 1989 when special factors caused a marked slowing of debt increase, the rate of increase in the foreign debt balance has exceeded the economic growth rate for the same period. This pattern has two conspicuous characteristics: One is

that during the first half of the 1980s excessive growth fluctuated greatly, tending to settle down afterward. Before 1985, for example, the rate of increase in the foreign debt balance outstripped the growth rate of both GNP and national income. Fluctuation in the growth rate ranged from a low of slightly more than two percentage points (in 1983) to a high of somewhat more than 230 percentage points (in 1985). After 1985, the foreign debt growth rate fluctuated consistently by between 20 and 30 percentage points.

Second, the foreign debt growth rate was great during the mid-1980s and slight during the beginning and end of the 1980s. In other words, at the beginning of the 1980s and just before entering the 1990s, the speed with which foreign debt balance growth exceeded economic growth was less than during the mid-1980s. For example, from 1979 to 1983, the foreign debt balance grew at an average 36 percentage points per year more than both GNP and national income. Between 1984 and 1988, foreign debt balance growth rose to 47 percentage points, and between 1989 and 1991, it fell to 10 percentage points.

An overview of how China's debt has grown shows a process of sudden advance and relatively even growth. Before 1985, the foreign debt balance increased by no more than approximately \$800 million each year reaching only \$4 billion. In 1985, it increased suddenly to a high of nearly \$16 billion. Thereafter, within 3 years, i.e., from 1986 to 1988, the debt ballooned by nearly \$25 billion. The foreign debt balance very quickly broke the \$40 billion mark, and entered a sustained growth period in which it increased nearly \$9 billion annually. (See Table 1)

**Table 1. Changes in Foreign Debt Increase  
(Unit: \$100 million)**

	Foreign Debt Balance	Foreign Debt Balance Increase
1984	45.7	10.44
1985	158.28	112.58
1986	214.83	55.55
1987	302.15	87.22
1988	400.03	97.98
1989	412.99	12.96
1990	525.45	112.46
1991	605.61	80.16

Source of Statistics: Calculations based on 1984-1991 issues of the *Chinese Statistical Yearbook*

Sustained high speed growth of the amount of foreign debt brought China's debt indicators close to the critical point. An example was an increase from 2.3 percent between 1981 and 1985 to 9 percent between 1986 and 1990 in the debt rate (the medium and long-term debt balance as a percentage of GNP), which reflects the amount of foreign debt that a country can bear. Another

indicator for judging size of indebtedness, the medium and long-term foreign debt balance in proportion to trade and non-trade foreign exchange earnings, leaped from 17 to 86 percent during the same period.

As the size of the foreign debt expanded, the extent to which economic development relied on foreign debt funds increased with each passing day. The beginning of China's borrowing from abroad coincided with its entry into a period of high speed development of the national economy. This was a period during which both renminbi and foreign exchange were in fairly short supply. The country's money supply situation was one in which even though growth of fiscal revenues was 2.7 percentage points faster than fiscal expenditures during the first half of the 1980s, the annual fiscal deficit was still more than 2.4 billion, or nearly 2 percent of fiscal revenues. In addition, the rate of increase in average annual national income accumulation was 5.6 percentage points lower than the rate of investment increase, which was growing at ultra-high speed. Annual investment growth as a percentage of national income growth broke the 63 percent mark. Money was in extremely short supply. Nor was foreign exchange readily available. China's current international balance of payments showed a deficit, the adverse balance amounting to nearly \$500 million annually. Pressured by these "dual shortages," the need to increase foreign borrowing inevitably increased. Thus, foreign borrowing did increase gradually. (See Table 2.)

**Table 2. Foreign Borrowing and Statistics for Associated Indices (%) for First Half of 1980's**

	1981-1985
Foreign loans as a percentage of fiscal income	3.44
Foreign loans as a percentage of national fiscal debt revenue	43.2
Foreign debt increase as a percentage of national income increase	9.8
Foreign debt increase as a percentage of national income accumulation increase	22.3
Foreign debt balance as a percentage of investment in assets under ownership of the whole people	6.0 Source of statistics: Calculations based on 1981-1985 issues of the <i>Chinese Statistical Yearbook</i>

During the second half of the 1980s, the money shortage worsened. Between 1986 and 1990, a trend occurred in the rate of increase of both fiscal revenues and fiscal expenditures that was different than during the previous five years. The rate of increase was greater during the second half than during the first half of the period, the average annual fiscal deficit increasing 2.8 fold over the previous period to break the 9.2 billion yuan mark and rise to 3.4 percent of fiscal revenue. The international current account balance of payments continued to worsen, the adverse balance averaging \$3.4 billion per year (except for 1990). In order to sustain economic growth, the scale of foreign borrowing ballooned, the

degree of dependence on foreign loans increasing markedly. Foreign debt net inflow accounted for 11 percent of investment in fixed assets under ownership of the whole people. (See Table 3.)

**Table 3. Foreign Borrowing and Statistics for Associated Indices (%) for the Second Half of the 1980s**

	1986-1990	1991
Foreign loans as a percentage of fiscal income	4.7	5
Foreign loans as a percentage of national fiscal debt income	53.4	39
Foreign debt increase as a percentage of national income increase	19.4	19.6
Foreign debt increase as a percentage of national income accumulation increase	68.4	100.9

Source of statistics: Calculations based on 1986-1991 issues of the *Chinese Statistical Yearbook*

Although the foreign debt net inflow relieved the foreign exchange shortage to a certain extent, because domestic accumulation and borrowing did not increase as well, domestic counterpart funds remained in very short supply. Furthermore, foreign indebtedness was extremely closely related to fiscal receipts and expenditures. Because of the consecutive year fiscal deficits, increase in the two maintained a proper ratio. Furthermore, the percentage of foreign debt to fiscal expenditures was too high. In addition, the rate of increase in China's foreign debt balance clearly continued to exceed the rate of increase in fiscal expenditures. Between 1986 and 1990, this excess rate of increase reached 14 percentage points each year. (See Table 4)

**Table 4. Foreign Debt and Associated Statistical Indices %**

	1986-1990	1991
National income accumulation rate	33.9	31.9
National income accumulation growth rate	12.4	8.9
Rate of increase in foreign debt balance	27.9	15.2
Fiscal income increase rate	12.2	9
Fiscal expenditure increase rate	13.4	10.5

Source of statistics: Calculations based on 1986-1991 issues of the *Chinese Statistical Yearbook*

#### **B. Latent Incongruities in the Indebtedness Structure Limit, To a Certain Extent, Improvement of Marginal Benefits From the Use of Foreign Borrowing**

Generally speaking, the structure of China's indebtedness is fairly rational; however, some latent problems remain that require full attention.

1. The too rapid increase in commercial credit has brought about a concomitant rise in financing costs. As

the demand for capital steadily expands, conditions for obtaining medium and long-term preferential loans become increasingly stringent. This forces a shift of borrowing channels toward commercial loans, which causes the indebtedness structure to develop in an unfavorable direction. One might say that this trend exists in all the world's financial markets. Since the mid-1980s, this trend has become increasingly apparent in China's foreign borrowing.

Although commercial credit borrowing procedures are fairly straightforward and conditions for the use of such credit are fairly lenient, interest rates are high. Furthermore, most are floating interest rates that are easily affected by international financial market movements. In addition, repayment periods are fairly short and payback periods concentrated. This increases China's real debt cost burdens.

2. An unfavorable conversion trend has also appeared in the long and short-term debt structure. Ever since it first began to borrow abroad to finance domestic economic development, China has striven to strike a balance among the repayment periods for different loans to avoid repayment difficulties stemming from short repayment intervals. Therefore, after a period in 1985 when short-term indebtedness was greater than 40 percent of the foreign debt balance for a time, China made readjustments very quickly. During the Seventh 5-Year Plan, short-term loans have declined steadily, and medium and long-term loans have increased fairly rapidly. (See Table 5.) Between 1986 and 1990, medium and long-term indebtedness accounted for nearly 99 percent of the increase in the foreign debt balance for the same period. In 1992 medium and long-term indebtedness totaled \$58.5 billion. It rose from 59 percent of the foreign debt balance in 1985 to 84 percent in 1992, a 25 percentage point increase. Meanwhile, short term indebtedness in 1992 was less than \$11 billion. It fell 24 percentage points during a period of 7 years to only 16 percent of the foreign debt balance, an amount far lower than the internationally recognized 25 percent warning line. Nevertheless, some trend toward change in an unfavorable direction also required close attention.

**Table 5. Long and Short-Term Debt Increase (%)**

	1985	1986-1990	1991	1992
Annual long-term debt increase	35.5	72.7	44.5	82.2
Long-term debt increase as a percentage of foreign debt balance increase	31.5	98.8	55.9	93.8
Long-term debt increase rate	60.5	37.2	9.8	16.4

**Table 5. Long and Short-Term Debt Increase (%)  
(Continued)**

	1985	1986-1990	1991	1992
Short-term debt increase as a percentage of foreign debt balance increase	44.8	1.2	44.1	6.2
Short-term debt increase rate	367.0		52.3	5.3
Long-term debt as a percent of foreign debt balance	59.5	83.5	83.0	84.4
Short-term debt as a percent of foreign debt balance	40.5	16.5	17.0	15.8

Source of statistics: Calculations based on 1985-1992 issues of the *Chinese Statistical Yearbook*

3. Foreign debt is also too much concentrated in a few different currencies, which causes a loss of benefit from foreign debt due to exchange rate changes. Owing to uncertainties in recent years about the rate of exchange for the United States dollar into other major western currencies in international financial markets, selection of the foreign currency in which foreign debt is to be incurred will be a basic factor influencing the total cost of foreign borrowing. In order to avoid losses stemming from exchange rate changes, full consideration must be given at the time of borrowing to the currency used and trends in exchange rate changes, as well as to the kind of currency in which the collection of export proceeds are to be figured. The kinds of currency making up China's foreign debt right now are not entirely rational, the main problem being over concentration in certain currencies. Ever since borrowing began, the United States dollar and the Japanese yen have accounted for more than 70 percent of China's total foreign debt balance. The International Monetary Fund deems such a pattern to be an unsafe foreign debt currency structure. This is particularly true of Japanese yen indebtedness, because the yen exchange rate shows a steadily rising trend. Thus, it becomes the main currency causing China a debt loss. During the mid-1980s, for example, when the scale of China's foreign borrowing was rising, the exchange rate between the United States dollar and the Japanese yen was 1 to 200.50. However, by the 1990s, when Chinese debt repayment peaked, the value of the Japanese yen rose tremendously relative to the United States dollar. It recently broke the 104 to 1 mark. Such an overconcentration of debt in certain currencies renders impossible the mutual offsetting of changes in exchange rates that diversification among many different currencies permits. It is extremely unfavorable for continued expansion of the amount of foreign debt.

4. Changes in main creditor and debtor entities. In the beginning, China's main source of credit was foreign government loans, but as reform and opening to the

outside world progressed, more and more financing channels opened up. After entering the Seventh Five-Year Plan period, the percentage of government loans gradually declined, while foreign bank and foreign financial institution loans increased correspondingly. This produced a creditor pattern in which foreign bank and foreign financial institution loans are paramount.

Simultaneously, with readjustment of borrowing guidance plans and expansion of the multiple channel system for foreign borrowing, startling changes also occurred in the composition of creditors and debtors. Today a fairly clear trend has occurred in which debtors deal with the Bank of China.

5. Too much investment of foreign debt funds is in basic industries. Foreign debt fund investment is basically consistent with the government's macroeconomic policy intentions; nevertheless, for many years, too large a percentage of money borrowed abroad has been used for infrastructure. If comparison with other debtor nations in the world is needed, such investment is similar to that of many African debtor nations and India.

Even though such an investment pattern can ease the "bottleneck" limitations that the lack of infrastructure causes for economic development, it cannot be denied that the projects in which the money is invested cannot directly earn foreign exchange or that economic returns from it are low. Thus, it is difficult to ensure that the projects themselves will be able to repay the loans.

## II. Analysis of the Trend of Development of China's Foreign Debt During the 1990s

In this section, we will analyze the money supply situation in international capital markets during this period and China's real tolerance for foreign debt in terms of both China's national economic development and foreign loan needs during the 1990s. We will also forecast a safe amount of foreign debt for China during the 1990s.

### A. China's Foreign Debt Requirements and Domestic Funds Shortage During the 1990s

China is a developing nation in the mid period of industrialization. Per capita income is low, and the country's ability to provide capital accumulations from within is limited. For a long time to come, a net influx of foreign capital, including borrowing from abroad, will be indispensable in realization of economic growth goals and improvement of the investment rate. Experiences with economic development during the 1980s suggest that substantial difficulties will be encountered in balancing investment needs against accumulation capabilities to realize such high speed development. In addition, supply and demand for the foreign exchange needed for the country's imports each year are uneven. In many instances, supply does not meet demand. This shows up in the international balance of payments. During many years in the 1980s, a substantial adverse balance of current accounts existed. In the process of realizing

strategic development goals, including the transformation of economic growth methods and advancing heavy chemical industry industrialization during the 1990s, the demand for money from abroad, including foreign loans, will be extremely brisk.

It is estimated that maintaining a 9 percent GNP growth rate will require a 32 percent investment rate, the cumulative amount of investment totaling 9.37724 trillion yuan. If an average 8 percent growth rate and a 34 percent accumulation rate is maintained for national income, the cumulative amount of accumulation will total 7.65099 trillion yuan. Thus investment will exceed accumulation by 1.72625 trillion yuan, or approximately \$300 billion. Since a portion of accumulations must be kept as a reserve, this shortfall will be even greater. Developing nations have two main channels for getting foreign capital. One is foreign loans, and the other is foreign trader direct investment. During the 1980s, direct investment accounted for roughly one-third of total foreign capital used in China (and 50 percent in some years). If this configuration does not change in the 1990s, China will have to borrow \$200 billion to make up for the domestic funds shortfall.

#### B. China's Actual Tolerance for Foreign Debt During the 1990s

A country's foreign debt tolerance for any given period may be divided into two parts: One is the maximum capital outflow that a country's economy can stand for repayment of capital and interest during that period. The second is the maximum foreign debt balance net increase that a country's economy can stand during that period.

##### 1. Estimate of Maximum Principal and Interest in the 1990s

Internationally, the debt service rate risk limit for most countries is generally deemed to be 20 percent. For developing countries, it is 25 percent. The World Bank's generally accepted view is that a 15 percent debt service rate risk limit is about right for China. Inasmuch as the departments in charge of foreign debt management in China cannot agree on a debt service rate, we have provisionally figured China's maximum principal and interest payback tolerance on the basis of a 15 and 10 percent debt service rate.

Once a debt service rate has been set, the maximum principal and interest that China can bear during the 1990s has to be decided on the basis of the amount of export foreign exchange earnings and the growth rate.

The outlook for China's export trade during the 1990s is fairly optimistic. First of all, the growth rate for the world economy and international trade will rise further. Prospects are that the respective 23.9 and 3.6 percent growths of the 1980s will rise to 3 and 5 percent respectively during the 1990s. Second, China will still occupy first place in Asia-Pacific region economic

growth. Finally, developed countries' economic restructuring—particularly their industrial restructuring—provide an opportunity for China's development of labor-intensive products and standardized technical products. Furthermore, recovery of China's GATT seat, which will spur further integration of China into the international trade system, will also give a strong push to China's export trade. Therefore, in view of various factors, including the already fairly large export base figures, it is predicted that the rate of increase in China's export trade during the 1990s (in international balance of payments terms) will remain at, or possibly be slightly higher than, the 10.26 percent rate of the 1980s (1981-1990). In making this forecast, we provisionally set the export foreign exchange earnings growth rate—the limiting condition—at a minimum 10 percent and a maximum 12 percent.

Using a 10 and 12 percent export growth rate based on the 10 and 15 percent export foreign exchange earnings growth rate set above, we estimated the size of foreign debt principal and interest repayments during the 1990s. For the period 1991-2000, the minimum scenario calls for principal and interest repayments totaling \$105.8 billion, or about \$12 billion each year. The maximum scenario calls for principal and interest repayments totaling \$178 billion, or \$20 billion each year.

##### 2. Calculation of Maximum Debt Balance Growth During the 1990s

Internationally, two main indicators are considered to arrive at the size of a country's debt balance. One is the foreign debt rate, meaning the debt balance as a percentage of export foreign exchange earnings. The second is the debt rate, meaning the debt balance as a percentage of GNP. The former may be used to arrive at the growth in the debt balance that China's foreign exchange earnings during the 1990s can sustain; the latter may be used to arrive at the debt balance growth that the strength of the national economy can sustain.

First, let us examine the size of China's debt balance in terms of the foreign debt rate. If this indicator reaches 150 percent, the country is a moderately indebted country. Anything larger than 200 percent makes the country a heavily indebted country. In this case, 100 percent serves as China's foreign debt rate warning line for the 1990s. Using the foregoing indicators to calculate the maximum foreign debt balance that export foreign exchange earnings can sustain each year during the 1990s, the foreign debt balance that China's foreign exchange earnings will be able to support during the mid-1990s will be approximately \$100 billion. In 2000, it will be between \$160 billion and \$190 billion. If the actual foreign debt balance for 1991 is used as the base period, the debt balance exclusive of short-term debt, will increase by a net approximately \$100 billion to \$140 billion by 2000.

Both the Eighth Five-Year Plan and the 10 Year Plan envision an annual 8 or 9 percent annual GNP increase

by 2000. On the basis of current references we have seen, in which the standards used differ, the warning line for China's debt rate should be set at a maximum 30 percent and a minimum 15 percent. We believe that even though China does not use funds efficiently, the country's domestic savings rate is fairly high. Therefore, a debt rate warning line of 20 or 25 percent is about right. Thus, calculations show that in 2000, the country's national economic strength will be able to support a foreign debt balance of between \$146.5 billion and \$198.9 billion. By comparison with the 1991 actual foreign debt balance, a net increase of between \$96.2 billion and \$148.7 billion can be sustained, i.e., between \$100 billion and \$150 billion.

Of course, the above estimate does not take into account the effect of future exchange rate changes. In calculating the U.S. dollar value of GNP, the exchange rate used for conversion is 5.50 yuan renminbi to \$1.00. During the 1990s, several factors may cause continued devaluation of the renminbi. First, high speed economic growth and further heavy chemical industrialization during the 1990s may widen import demand. Second, as the domestic economy is decontrolled more and more, and particularly following restoration of China's GATT status, the trade management system will gradually become integrated with international practice. As a part of the price regulation mechanism, foreign exchange will play a much greater role in regulating trade. Third, the experience of newly industrialized countries suggests that devaluation of one's own currency is a major policy pursued during the industrialization take-off period. In order to promote the export trade, China will also consciously use this currency devaluation tool. Calculations show that if the rate of exchange falls to 8 yuan renminbi to 1 United States dollar during the 1990s (the 10 year average exchange rate), in 2000, the debt balance that China's national economy will be able to bear will fall by between \$50 billion and \$70 billion. Thus, in 2000, the foreign debt burden that China will be able to bear will be no more than between \$100 billion and \$150 billion. By comparison with the actual 1991 foreign debt balance, this will be an increase of between \$50 billion and \$100 billion.

If changes in exchange rates are not taken into account, the country's tolerance for increase in the foreign debt balance between 1991 and 2000 is substantially the same whether figured in terms of export foreign exchange earnings or GNP increase. When exchange rate changes are taken into account, tolerance for increase in the foreign debt balance will decrease relative to GNP increase. However, generally speaking, export foreign exchange earnings have a greater and more direct effect on debt tolerance. Therefore, taking both GNP and foreign exchange earnings into account, the maximum foreign debt balance increase that China's economy will be able to bear will be between \$100 billion and \$140 billion.

### C. Domestic Funds Shortfall and International Capital Availability

#### 1. Amount of Foreign Borrowing and Domestic Funds Shortfall During the 1990s

The so-called amount of foreign borrowing problem is actually a study of the problem of the amount of foreign debt that a country's economy can bear. Earlier, we calculated both the maximum principal and interest repayments China can bear during the 1990s, and the maximum debt balance that China can tolerate in 2000. The maximum amount of new foreign borrowing during the 1990s is the sum of the maximum amount of capital and interest, and the increase in the debt balance during that period.

The maximum repayment of principal and interest that China's export foreign exchange earnings can support during the 1990s is between \$100 billion and \$198.8 billion. The increase in the foreign debt balance that China's export foreign exchange earnings and the strength of its national economy can sustain is between \$100 billion and \$140 billion, or slightly less. The two together make up the total amount that China can borrow during the 1990s, which is somewhere between \$200 billion and \$300 billion. The amount of foreign borrowing it can tolerate each year between 1991 and 2000 is between \$22 billion and \$30 billion. One point requires clarification, namely that included in this between \$200 billion and \$300 billion figure is an amount equivalent to the capital and interest repayment that is needed to make up for capital outflow during this period. The amount of foreign debt needed to remedy the domestic savings shortfall is only the amount of foreign debt balance increase during this period.

On the basis of the above analysis, we know that China is short 1.7262 trillion yuan renminbi, or approximately \$300 billion, of the amount needed for an average 9 percent annual economic growth. We also know that the maximum amount of debt that China's national economy can tolerate during the 1990s will make up for between one-third and one-half the domestic savings shortfall. Of course, if actual principal and interest repayments are less than the amount that export foreign exchange earnings permit, the amount of foreign borrowing needed to make up for the domestic funds shortfall will be greater.

#### 2. Availability of Money in International Capital Markets During 1990

Currently, there are numerous unfavorable factors affecting the availability of money from international markets. First, savings have declined in developed countries, causing a slowing of the increase in total savings of the international banking business. The situation during 1990 and 1991 shows a between one and two percentage point decline over the 1980s in the average net savings rate of the major industrialized nations. Second, Germany's unification caused a tremendous contraction of

its export of capital abroad. During the 1980s, the Federal Republic of Germany was second only to Japan as the world's largest creditor nation, exporting between \$70 billion and \$100 billion each year. Following unification of the two Germanys, most of the funds were consumed in turning around the economy of the eastern zone. Third, since the early 1990s, Japan has begun to withdraw from international capital markets, its foreign lending declining greatly.

Despite the above factors, international capital markets have not dried up completely. First of all, the worldwide economy and trade will maintain steady growth. It is generally felt that the western economic recession of the early 1990s will be milder and of shorter duration than the 1980s recession. During the last half of the 1990s, the world economy and world trade will witness remarkable growth. Growth during the 1990s will be somewhat higher than during the 1980s. The economic and trade growth rate will increase from the respective 2.9 and 3.6 percent of the 1980s to an approximately 3 and 5 percent during the 1990s. Second, during the early 1980s, the western countries went through the most serious economic crisis since the end of World War II. Subsequent development shows that the economic restructuring that every nation made in the wake of the crisis will promote an international flow of capital. Third, the amount and frequency of international capital flow during the 1980s, which exceeded the trend toward a shift in production elements to a barter basis, will not change greatly. Furthermore, the flow of international capital frequently corresponds greatly to imbalance in world supply and demand for funds. Accelerated movement of international capital will help ease the unevenness in the supply and demand for capital.

### III. Ideas About Greater Macroeconomic Control of Foreign Debt

The study and estimates provided in the first two parts of this report suggest that the size of China's foreign debt will increase further during the 1990s. Therefore, we must perfect our foreign debt management mechanism—both strategic planning and greater macromanagement—to enhance China's credit position in international markets.

#### A. An Overall Policy of Keeping Close Tabs on an Appropriate Amount of Foreign Debt During the Eighth Five-Year Plan Period

##### 1. Continued Maintenance of a Net Rate of Increase in Foreign Debt in Which Capital Inflow Will Be Slightly Greater Than Outflow

Ensuring an absolute increase in the amount of national income used requires a determination of the total amount of foreign borrowing over the next several years. In order to offset the negative effect of a net outflow of foreign debt funds on the domestic accumulation rate and intensity of investment, approximately \$100 billion will have to be borrowed abroad (loans of all types)

during the entire Eighth 5-Year Plan period. This means maintaining the inflow of capital from foreign borrowing at between \$18 billion and \$20 billion annually. In view of the domestic funds shortfall, and because of both the size of China's principal and interest repayments and a tight money trend in international capital markets, a between 16 and 17 percent annual speed of increase in the foreign debt balance will have to be maintained for the next several years.

##### 2. Focus on Good Readjustment of the Present Foreign Debt Backlog, and Attention to Monitoring and Controlling Indicators of Foreign Debt Risk

The \$70 billion in foreign debt accumulated during the past more than a decade and the outflow that stems from repayment of foreign debt principal and interest constitutes a tremendous dual outflow of funds whether converted at the official rate or the swap market rate. Therefore, a good job of adjusting and controlling the present foreign debt backlog is the key to improvement of macroeconomic benefits from foreign debt.

When divisions and enterprises find debt repayment difficult or are in arrears, state foreign debt control departments might consider the use of debt balance control and management methods. Concerns that get into debt repayment difficulties because of mismanagement, or because of a wrong choice of project, production halts, or insolvency may be auctioned off or undergo bankruptcy proceedings. In other words, actions should be taken as each division's and enterprise's foreign debt backlog performance warrants to terminate it or to continue to bail it out. Only after management actions become effective and the enterprise is able to continue loan repayments may it be approved to borrow again. Otherwise, it should be eliminated.

The problem of incurring new debt to repay old debt should be handled on a case-by-case basis. Some projects that were built with foreign loans are now facing loan repayment difficulties, mostly because they took a long time to build, or they were built to provide social benefits. Other reasons include a tremendous devaluation of the renminbi exchange rate in recent years, and management problems. Inasmuch as it is very difficult for these kinds of projects to remedy their loan repayment difficulties by producing more to earn more, or by foreign exchange swap market transactions, borrowing new money from domestic financial institutions to repay the old debts should be considered. Alternatively, necessary support should be given them so that they can go back into production as soon as possible to produce social benefits.

#### B. Policies For Improving the Foreign Debt Structure During the Eighth 5-Year Plan

##### 1. Connection Between Preferential Loans and Non-Preferential Loans in Optimizing the Foreign Debt Structure

Guidance is needed in the following several regards in order to lower fund raising costs and risks, and to improve and raise overall benefits from foreign debt:

First, projects whose development is important, and for which good conditions for investment exist should be selected in accordance with national annual borrowing plans. Such projects should receive preference in the use of long-term preferential loans. Existing cooperation should serve as the basis for creating conditions that enable year-by-year increase in preferential loans. First, proper attention should be given to the amount of borrowing, and second, the purposes for which loans are to be used must be planned to avoid concentration of investment on engineering projects for which the construction period is overly long.

Second is to use China's position as a large developing country, and its longstanding financial and technical cooperation with international organizations and industrially developed countries as a basis for obtaining preferential loans. As progress in China's GATT re-entry quickens, once the domestic market has been decontrolled (lowering of tariffs, and non-tariff measures such as loosening of foreign exchange), management of China's international balance of payments will suffer a direct jolt. We should actively obtain from IMF the loan support that IMF regulations provide for member states when their international balance of payments deteriorate.

Third is greater guidance about how commercial loans are invested. We must have a control norm for the total amount of commercial loans nationwide. Increase in the number of channels through which loans may be obtained does not mean that no control should be exercised over commercial loan plan norms.

## 2. Control Rational Investment of Funds, Taking Into Account Both Economic Returns and Social Benefits.

Rational investment of funds is a dynamic policy that should emphasize different things at different times.

First is appropriately increasing medium and short-term loans for certain light industry and textile industry projects in short supply in order to increase export foreign exchange earning capabilities. In addition, optimum use should be made of the export commodity structure that foreign capital makes possible to upgrade the quality of exports, specifically to increase the export of high added value capital-intensive and technology intensive machinery and electrical equipment.

Second is stabilizing, more or less, the existing funds investment pattern. The tilt toward infrastructure and basic industries as the foreign debt funds investment orientation at the very beginning resulted from many factors. China has now accumulated rich experience in contracting debt. It is now moving into the second stage of how debt is invested, and the existing funds investment pattern should be kept more or less.

## 3. Keeping Foreign Debt Time Limits, the Different Currency Make-up, and Interest Rates Reasonable

First, short-term loans must be strictly controlled. Particularly in need of control is the vicious cycle in which some jurisdictions and sectors contract commercial loans to repay debts.

Second is proper selection of the different kinds of currency. In accordance with the principle that an upward revaluation of currency automatically increases the debt burden; henceforth, proper control of the percentage of debt in different currencies should be strictly adhered to.

Finally is greater control of foreign debt interest rate risk. Interest rate risk applies to the interest cost of foreign debt exceeding original expectations. Inasmuch as the factors influencing changes in a country's interest rates are numerous, complex, and difficult to predict, the amount of floating interest rates loans must be limited when borrowing.

## C. Policy Measures for Greater Macroeconomic Control of Foreign Debt

### 1. Building and Perfecting an Effective Foreign Debt Control System in China

Obvious weak links exist at the macroeconomic decision making level in China's foreign debt management. Both the mesoeconomic and microeconomic fields also show some problems with the use of funds, controlling costs, managing projects, and repaying debt. Therefore, truly workable intermediate objectives and long-term objectives must be set for incurring foreign debt. Intermediate objectives means determining the amount and the form of borrowing from abroad each year, and selecting the best borrowing plan on the basis of the funds and technology shortfall and the country's tolerance for debt, and in light of the prevailing 5-year plan. It also entails both making sure that the total debt structure is rational and ensuring debt repayment and continued foreign borrowing once satisfaction of total funds requirements has been assured. Long-term objectives means the introduction of numerous ways to use foreign capital to stimulate economic growth, gradually lower the debt burden, and ultimately liquidate the debt and move toward becoming a creditor nation.

Building of effective foreign debt regulation and control policy institutions. Effective policy and control institutions are an important element in good foreign debt management. Since foreign debt is contracted in many different places, the main task of China's foreign debt management system, and each foreign debt management agency regarding the division of labor among different agencies, system reform difficulties, and the meshing together of other systems is to improve the operation and management of existing debt, to improve the foreign debt input-output benefit, and to ensure repayment.

## 2. Suggestions for Improving Foreign Debt Output Benefits

First is improvement of prior period management of foreign debt projects. Foreign borrowing at the macroeconomic decision-making level has to be based on the matching of foreign debt sources and the country's industrial policy with development goals. In the process of deciding on projects, procedures for putting projects on record, feasibility studies, and project argumentation must be standardized to prevent their becoming just formalities, or to prevent examination and approval personnel from making rash suggestions when making evaluations. Agencies responsible for project construction, for production management, and for debt repayment must also participate in prior evaluation so that the before and after periods for foreign debt projects will be dovetailed in order to prevent a hiatus.

Second is creation of the support conditions needed for foreign debt projects' construction and production management. If one believes that macroeconomic decision making is the key to good foreign debt management, then foreign debt administration and management is an important basis for effective macroeconomic control. National macroeconomic control units must honor and create the policies that projects need so that they will be built and go into production as early as possible to secure the benefits of time. In cases in which there is a lack of continuity among the main managerial personnel for foreign debt projects, and when contract periods vary, contract management during the project construction period may be considered. When prices of raw and processed materials rise, and exchange rates change during the project construction and production process, insofar as national financial resources and policies permit, support should be provided by national and local agencies as their respective powers allow. Foreign debt projects that have no prospects because of macroeconomic decision slips or microeconomic operation problems should be discussed as early as possible and timely solutions found according to applicable laws and regulations.

## 3. Close Attention to Debt Repayment Management to Increase the Country's Credit Rating

Close attention to foreign debt repayment must be a firm objective of credit management in order to ensure the country's overall credit rating so as to be able to continue to expand economic and technical exchanges. In this connection, the following several principles need clarification:

First is clarification of debt repayment responsibility, adhering to the principle that "whoever uses the money repays it." Inasmuch as the percentage of the total amount of principal and interest to be repaid for which the central government is accountable is not very high, and since it is fairly consistent, the emphasis must be on the repayment of group loans by individual components of the group, and individual repayment of individually contracted loans.

Second is establishment of a debt repayment fund to reduce debt risks. Consideration may be given to establishment of both a central government level fund and provincial level repayment funds, the financial authority and powers of which are defined, and the uses to which the money is to be put, management methods, and sources of funds spelled out.

Third is establishment of a credit rating control system for banks and financial institutions that are authorized to raise funds. With the steady expansion of channels through which the country contracts foreign debt, and the main debtors gradually becoming financial institutions, the role of banks and financial institutions in credit management—particularly debt repayment—has become increasingly strong. Government examination and evaluation of bank and financial institution creditworthiness will greatly enhance banks' and financial institutions' future ability to regulate and control foreign debt. This will also serve as an important test of the establishment of dual control of foreign debt by government and banking institutions, and it is also a reform measure to enable macroeconomic policy making departments free themselves from day-to-day matters and wrangles over specific projects.

## Suggestions on Restructuring Foreign Exchange System

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[Article by Shi Diansi (2457 3013 2448): "Several Suggestions on Restructuring the Foreign Exchange System"]

[Text] Today, the initial battle to merge the exchange rate tracks has been won, but to truly strengthen and develop the results of the merger, we must continue to work hard.

### I. The Issues

To strengthen and develop the results of the merging of the exchange rate tracks, we must promptly consider four issues: Should foreign-funded enterprises [FFE] be required to settle their foreign exchange? How do we control capital outflow? Should we allow the continued presence of a "black market"? Should we continue to allow renminbi [Rmb] to be taken in and out of the country freely? These four issues are linked and are an integral part of the domestic enterprises' regular foreign exchange revenue and expenditure under the new system. If we deliberately separate them and implement contradictory systems, it will produce serious conflicts in practice, making it difficult to stabilize the already merged legal exchange rates. The reasons are:

First, if there is no effective control over the outflow of capital, compulsory exchange settlement for recurring items will always find "the front door tightly guarded but the back door wide open," which is very dangerous. In

the past four years, overall, China's regular balance of payments has produced surpluses, and large amounts of foreign capital have been flowing into the country. In principle, we should not have a problem with foreign exchange supply and demand at home; however, market exchange rates have been volatile. The main problem was the large outflow of capital which has rendered us a net exporter of capital. When capital items use up a lot of foreign exchange, the supply of exchange for recurring items will be tight. Moreover, there is an even more direct relationship between capital accounts and recurring accounts: When an exporter delays collection of payment, or when the other side delays payment, it will inevitably show up as late or insufficient settlement in the recurring account and will also be listed as capital outflow, because it is the same thing as extending credit to the foreign party. Nations that implement exchange control must first control capital outflow, and when easing exchange control, they always make capital outflow the last thing to be decontrolled.

Second, if the FFEs are not required to make exchange settlement, the so-called "managed floating market exchange rate system" will have an innate loophole. Today, FFEs need not settle their foreign exchange; their investments need not be converted to Rmb, but FFEs that cannot balance their foreign exchange are still guaranteed the foreign exchange they need. This naturally makes balancing foreign exchange supply and demand difficult. More serious is that because the FFEs' foreign exchange is basically not under control, they can take advantage of the domestic enterprises' demand for foreign exchange to reap non-operating profit and in fact create a secondary foreign exchange market. Foreign businesses can make foreign exchange payments for domestic importers and even import goods on their behalf; or they can make foreign exchange payments for overseas investments or exchange Rmb for newly arriving foreign investors. Payments can be made in many different ways: cash, check, in-kind payment, or other methods of compensation—we cannot prevent them all. The fact is, almost all nations implementing exchange control extend their control to all enterprises (including foreign-funded banks) within their territories. This is an international practice; there is no "exceptional" treatment like our current system.

Third, merging the exchange rate tracks has solved the legitimate double-track exchange rate problem, but the illegal black market is still rampant. The presence of a black market keeps the non-export-generated foreign exchange revenues low. Up to the end of last year, more than 40 million foreign tourists have visited China, but the tourist department only took in a little more than \$4 million in foreign exchange, averaging only around \$100 per visitor. The black market greatly interferes with the effectiveness of exchange control and the stability of the legal exchange rate; it is also a solid base for smuggling and capital drain. This is because it makes no essential difference whether the portion of money taken out of the country that exceeds actual travel expenses is spent on

foreign investments, used to buy securities, or deposited in foreign banks. Moreover, this is also an important way to turn public money into private funds and to transfer illegal income. This is also where China departs from other developing nations' usual practices.

Fourth, from the point of view of international balance of payments, there is no essential difference between taking Rmb and taking foreign currency abroad; they both produce serious consequences. If someone is taking RMB out of the country, someone else will be bringing no or less foreign currency into the country. What used to be paid for by foreign exchange can now be paid for by Rmb. Similarly, in countries and regions that accept Rmb, it can be used to pay for capital items. Allowing people to take Rmb out of the country in fact is letting Rmb to become a convertible currency in foreign countries even before it is convertible in our own country. This is highly irregular. It not only provides a channel for capital drain and for the transfer of illegal income, but it also allows outside market exchange rates to interfere with the domestic foreign exchange market, which adversely affect our attempts to boost and strengthen the RMB's prestige, and it enables foreign financial institutions and individuals to speculate on the RMB and makes it even easier for counterfeit RMB to enter the country.

## II. Several Suggestions

1. We must stipulate that FFEs are required to implement the exchange settlement system. Not only must foreign exchange be settled when exporting, but new investments—except for direct investment in the form of equipment—must be converted to RMB first. At the same time, foreign exchange for FFEs' regular imports, legal remittance of profits, and other reasonable use should be promptly provided by banks upon presenting proper documents. In this way, the FFEs' rights will be balanced by their obligations, and everything will be fair and proper; we won't "scare away foreign investors." If export exchange settlement must go through a bench ledger in the interim, then new investments need not delay but should immediately be checked and registered in Rmb alone. This method also facilitates the checking of foreign capital fund, avoids late or insufficient capital funding, and prevents people from withdrawing and fleeing with their capital after registering, because after a foreign currency is converted into Rmb, converting it back to foreign currency will require legitimate reasons. In this process, we must also check more closely the value of in-kind investments reported by foreign businesses and tighten the supervision of their spending within this country.

2. We should promptly define the business scope of foreign-invested banking organizations in this country which may be affected by the FFEs' implementing the exchange settlement system. Foreign-invested banks in China must implement China's foreign exchange financial control system. We cannot yield on this point. The

question is, should we allow them to handle exchange settlement business (since it involves Rmb)? This is a dilemma. Actually, we have two options: First, we can allow them to handle settlement but bar them from handling any other Rmb business (especially lending and borrowing). According to international experiences, this will not be risky so long as we strengthen management. Another option is not to allow them to settle foreign exchange. This means FFEs must go to a domestic bank to exchange RMB before exporting or investing, and when making foreign payment or remitting money abroad, they must purchase foreign exchange and then go back to the foreign-invested banks. In comparison, the first method is simpler and better. The latter is complicated and tedious, and the FFEs and foreign-invested banks may resent it, but it is by no means infeasible.

3. To control capital outflow, we must first control the banks and financial institutions who are responsible for remitting the bulk of foreign exchange abroad. In the past, domestic banks' foreign exchange balance was included in the state's foreign exchange reserve. It is no longer so today. Thus, in international balance of payments, when banks deposit their foreign exchange overseas, purchase foreign securities, or provide foreign credit and so on, they should naturally be considered capital outflow. The outflow of domestic banks' capital cannot and should not be completely banned. Much of the outflow is proper conduct, because banks must have sufficient reserve or liquid assets. But, what we need to find out today is how big a foreign cash holding should banks reasonably keep? If their foreign exchange balance abroad is almost equal to their foreign exchange loan at home, do they still need that much foreign cash holding? Most foreign experts believe that Chinese banks are holding too large a foreign exchange balance abroad, and although they also engage in international financial market operations, their profit is meager at best. We should put the surplus into domestic construction to speed up economic development and increase export competitiveness—this is the only solution, and only then can bank profit reach the optimal level. Since the central bank's current foreign exchange reserve far exceeds the safety level, the specialized banks' foreign exchange balance, which has greatly expanded in recent years, should gradually be reduced—even a one-half or one-third reduction will not be too much. Of course this issue warrants further studies, but at least, we should not continue to increase the reserve.

4. In order to control banks' capital outflow effectively, we must also find ways to end the specialized banks' practice of managing different types of foreign exchange separately. Currently, specialized banks have several foreign exchange fund sources: Export enterprises' exchange settlement, deposits at home and abroad, loans assumed from foreign governments and financial institutions, collaterals absorbed when providing foreign businesses with Rmb loans, funds raised in international financial markets and so on. In addition, they are "not

using soy sauce money to buy vinegar"—not commingling funds of different kinds, which is a very safe practice, but it leads to idle funds and wastes. This is because only foreign exchange bought with money can be resold, but everything else is subject to rigid constraints; there is no room for regulated-use at all. Money must be returned to the international markets to get back their value. It seems that in order to make Rmb convertible with conditions, we must first eliminate the barriers between the banks' different kinds of foreign exchange funds; otherwise domestic loan funds will be increasing too slowly, and then it will be futile to talk about selling more foreign exchange.

5. Controlling foreign investments abroad no doubt is one important way to control the outflow of capital. We must formulate a tight foreign investment policy. The qualified should be given the go-ahead; those that are not qualified should be banned; those that violate orders should be punished. On cursory examination, development-oriented investments that help guarantee the import of raw materials scarce in this country, investments that help open up or expand our export markets, and investments in service-oriented projects that promote labor export or earn foreign exchange should be allowed; investments that primarily utilize Chinese-made equipment should even be encouraged. Other types of investments should be restricted. In formulating our policy, while we should carefully examine the foreign investment projects, there is also the need to conduct a nationwide survey to collect data on the existing foreign investments' total overseas assets and their distribution.

6. We should truly make all Rmb in the regular accounts convertible with conditions and eliminate black market transactions. As a prerequisite, we must first abolish the existing practice of letting banks pay different prices for spot remittance and cash. Currently, the difference between remittance and cash prices is as much as 0.22 yuan per dollar. This kind of discriminatory practice is shutting out foreign tourists and our own citizens of the banks and encouraging them to go to the black market. Of course, an even more important means of guarantee is to open the front door and, upon presenting a valid passport and visa, allow individual tourists going abroad to purchase \$2,000 per trip. Even if a million people are buying foreign exchange, it will required only \$2 billion, which is not an impossible burden. Moreover, the black market is handling large sums of foreign exchange currently, and taking back half of that will be more than enough. At the same time, we should announce a crackdown on black market foreign exchange transactions. Once discovered, all funds should be confiscated (many countries are doing this). Customs should resume checking and requiring people who enter or leave the country to report the amount of foreign exchange they are carrying. Foreign tourists leaving the country should not carry more foreign exchange than when they entered. A limit should be set on the amount of foreign exchange (including bank deposits) a Chinese citizen going abroad

may bring along. Open the front door and block the side doors—only in this way can we block the third main channel of capital outflow.

7. The regulation allowing Rmb to leave the country may be adjusted in steps. One way is to announce that henceforth RMB may only be brought into the country but may no longer be taken out of the country as a way to gradually eliminate the RMB markets abroad. Another way is to continue to retain the regulation allowing people to leave with up to 6,000 yuan but supplement that regulation with a new regulation: those carrying an equivalent amount in foreign exchange may not also carry Rmb with them. Another choice is that we can put restrictions according to country or region and gradually limit the outflow of Rmb to countries whose own currencies are nonconvertible or cannot be used in international settlement. The former method may be somewhat painful in practice, but it may be the better method.

8. To take full advantage of the international market opportunities to accelerate China's economic development, while we continue to encourage foreign businesses' direct investment and expand the scope of fund gathering in the form of capital stocks, we should also increase the amount of foreign capital brought in in the form of debts. Although this is not an absolutely necessary condition for foreign exchange reform, it will help stabilize the transition. On the one hand, this is because it is internationally recognized that China's debt situation is good, and on the other hand, we should also consider that even though all debts must be repaid, they have the advantage of helping us to avoid letting foreign businesses control China's economy, and they also help optimize the investment structure.

## INDUSTRY

### June Statistics on Industrial Output Value by Area

HK1507142294 Beijing CEI Database in English  
15 Jul 94

[Text] Beijing (CEIS)—Following is a list showing the industrial output value by area in China in June 1994, released by the State Statistical Bureau:

Area	6/94	6/93	(Unit: 100 million yuan)
			Change over 6/93 (pc)
National total	3871.39	3274.46	18.2
Beijing	121.26	95.75	26.6
Tianjin	88.03	77.39	13.7
Hebei	139.70	119.99	16.4
Shanxi	68.15	61.11	12.1
Inner Mongolia	34.04	32.40	5.1

Liaoning	215.20	191.76	12.2
Jilin	86.37	70.53	22.5
Heilongjiang	97.12	86.74	12.0
Shanghai	264.60	222.93	18.7
Jiangsu	553.58	472.72	17.1
Zhejiang	274.37	223.09	23.0
Anhui	108.46	87.86	23.4
Fujian	100.64	79.83	26.1
Jiangxi	75.64	60.71	24.6
Shandong	360.82	301.77	18.8
Henan	141.62	114.64	23.5
Hubei	170.01	137.14	24.0
Hunan	105.63	91.15	15.9
Guangdong	385.73	320.25	20.4
Guangxi	57.22	50.93	12.4
Hainan	6.78	6.74	0.6
Sichuan	201.54	173.98	15.8
Guizhou	27.89	26.26	6.2
Yunnan	44.94	39.78	13.0
Tibet	0.40	0.33	21.2
Shaanxi	61.08	55.23	10.6
Gansu	39.57	35.34	12.0
Qinghai	7.03	6.40	9.8
Ningxia	8.94	8.56	4.4
Xinjiang	24.64	23.15	6.4

Note: Industrial output value in 1994 is measured in 1990s constant yuan.

### Bureau Releases Jun Raw Materials Output Figures

HK1307111494 Beijing CEI Database in English  
13 Jul 94

[Text] Beijing (CEIS)—Following is a list of the output of raw materials in June 1994, released by the State Statistical Bureau:

Item	Unit	6/94	6/93
Iron ore	10,000t	2196.86	2104.90
Pig iron	10,000t	845.06	773.80
Steel	10,000t	774.59	725.20
Rolled steel	10,000t	697.29	663.39
Ferro alloys	10,000t	27.43	16.13
Coking coal	10,000t	600.65	546.28
Ten nonferrous metals	10,000t	32.70	28.35
Of: Copper	10,000t	6.16	5.94
Aluminium	10,000t	11.66	10.10
Copper products	10,000t	5.57	6.23

Aluminium products	10,000t	5.40	5.87
Alumina	10,000t	16.13	13.96
Sulphuric-iron ore	10,000t	171.09	157.46
Phosphorus ore	10,000t	243.00	224.91
Timber	10,000cu m	247.06	255.00
Artificial board	10,000cu m	46.08	47.30
Cement	10,000t	3560.65	3267.20
Plate glass	10,000c	913.60	886.72

Note: t - ton, cu m - cubic meter, c - case

## FOREIGN TRADE, INVESTMENT

### Clinton Praised For Delinking MFN, Human Rights

94CE0585A Beijing ZHONGGUO WUZI BAO  
in Chinese 15 Jun 94 p 1

[Article by Jiang Jun (1203 6511) and Tang Xiaoke (6781 1420 0668): "Analysis of Clinton's Decision Delinking MFN From Human Rights"]

[Text] After protracted hesitation and much agonizing, Clinton finally laid his cards on the table by announcing an extension of the most-favored-nation [MFN] treatment for China and dissolving the link between trade and human rights.

The issue of having to renew China's MFN status every year has at last come to an end. Commenting on this longstanding dispute, the New York Times wrote, "The Chinese are far more strategically astute in dealing with the United States than the latter is in dealing with the Chinese." The Associated Press described the development as a major success of China's diplomacy.

### Clinton Believed He Held Trump Card

Clinton certainly looked as if he had the upper hand when he signed an executive order last year extending MFN status for China for 12 months. He handed China a list of demands and gave Beijing until 3 June this year to make significant progress in seven areas in human rights, or risk having its MFN status revoked. At the time Clinton acted as if he had a trump card up his sleeve.

Most-favored-nation trade status, which means low-tariff treatment, is certainly essential to China. Sino-U.S. trade approached \$28 billion in 1993, with China exporting \$17 billion worth of goods to the United States and importing \$10.69 billion. The United States is China's top export market and also the fourth largest originating point of its imports. China sells tape recorders, television sets, textiles, and toys to the United States and purchases from it aircraft, computers, wheat, and timber. A nation exports so as to earn foreign exchange to pay for the materials badly needed at home.

Without the low tariffs made possible by MFN, China would have a much harder time exporting to the United States.

But China would not have suffered alone had MFN been revoked. The American economy will also be badly hurt. Not long ago about 800 U.S. corporations sent a joint letter to Clinton describing impassionedly the pros and cons of terminating China's MFN status. It read in part, "At assembly lines in plants and factories all over the United States, tens of thousands of Americans are making aircraft, electrical equipment, energy equipment, computer hardware and software, telecommunications systems, and chemicals for export to China. China trade provides 180,000 high-paying jobs in the export sector and other employment opportunities numbering in the thousands in retail stores, at ports, and in financial institutions. Should the U.S. Government touch off an economic conflict by terminating MFN treatment for China, it would be jeopardizing these employment opportunities and exports."

Another group of people who stood to lose was the American consumers. Even before Clinton made known his position on MFN last year, footwear and sock retail merchants in the United States sent copies of a survey report to his economic advisers claiming that importing Chinese footwear at low tariffs saved American consumers \$16 billion each year. The World Bank estimates that the eliminating of MFN treatment for China would cost U.S. consumers \$15 billion in additional spending.

### Americans More Concerned About Self-Interests

It is clear where practical economic interests lie. As the clamor among American businessmen for extending China's MFN status became louder and louder, they were joined by an increasing number of sympathizers at home. About 60 members (a clear majority) of the U.S. Senate argued for delinking trade from human rights. Senator Bob Dole, the Senate minority leader, and Senator Baucus, chairman of the Senate Finance trade subcommittee, both demanded that the MFN status be continued. At the House of Representatives, 106 members wrote to Clinton urging him to extend MFN unconditionally. Tom Foley, speaker of the House, and Lee Hamilton, chairman of the foreign affairs committee, also supported dissolving the link between MFN and the human rights issue.

There was an even louder chorus of criticism from the media and students of strategy. They lectured Clinton on the importance of treating China from a strategic high plane. Beyond the economic opportunities that American business was concerned about, they argued, China represented various strategic interests to the United States. As an Asian power, China could influence the disputes in Korea, Cambodia, and Southeast Asia. It is China which will decide Hong Kong's destiny in a few years. And China will certainly work out Taiwan's future too. China's policies in such areas as environmental protection, drugs, and immigration may have more

profound impacts than anything the United States chooses to do in those same fields.

The British publication **THE ECONOMIST** exposed Clinton's hand in a sympathetic language, asserting categorically that he simply could not abolish MFN. Clinton had worked himself into a bind because MFN was doomed as a policy. As a U.S. senator put it, to threaten to eliminate MFN status in trade was equivalent to threatening to launch a nuclear war on the military front. President Clinton had made the same threat back in spring last year, only to discover that he could not now press the nuclear button unless he was prepared to act irresponsibly.

#### **Clinton Had Few Supporters**

Clinton looked around and saw that few of his subordinates were seriously ready to back him up. Secretary of the Treasury Lloyd Bentsen and Secretary of Commerce Ronald Brown had made public their desire to reach a compromise with China and regarded the discontinuation of MFN treatment unnecessary. Secretary of Agriculture Espy was most candid when he said, "China is one of our most vital agricultural markets. At a time when American agricultural firms are going all out to sell to China, we need to come to their aid. If we abolish China's MFN status, other nations would replace us and take over our market share." As for "human rights," Madeleine Albright, U.S. ambassador to the United Nations, mercilessly unmasked the hypocrisy of the "moralists." She said, "Drive over to Anacostia (a poor neighborhood in Washington, D.C.) and see for yourself. What about the human rights of people there? How come you are not as sensitive about their human rights as you are about human rights in China?"

Only the ever-loyal Secretary of State Warren Christopher racked his brain to find a graceful way out for the President. It was to none other than Christopher that President Clinton issued his executive order last year. The challenge to Christopher was to persuade the Chinese, who were not willing to compromise, to cooperate with Clinton, while portraying the minimal concessions made by China as significant enough to satisfy Clinton's demands. Unfortunately his efforts met with scathing attacks from both sides. His trip to Beijing last March was such a dismal failure that Clinton flew into a rage in front of his aides, fuming, "What the hell is he doing in Beijing?" Rumors have it that this hardworking but ineffectual veteran bureaucrat is thinking of stepping down.

In fact Clinton was never really serious about ending China's MFN status. It was just that he could not bear to see another of his campaign pledges going down the drain. As a presidential candidate scrambling for votes, he lambasted Bush's China policy and promised Senator George Mitchell, the Senate majority leader, and the AFL-CIO that he would use MFN as a weapon to keep China in line. Then last year he signed Executive Order 12850, arrogantly setting seven conditions China must

meet. Could he now pretend he had forgotten what he had done yesterday and the day before?

Tomorrow, however, is clearly more important. Who will really dominate the world tomorrow? Robert Allen, president of AT&T and a mover and shaker in America's telecommunications industry, said, "China has now become the world's largest market for just about any product." Clinton had no alternative but to eat his own words.

As far as foreign policy is concerned, Clinton is said to have great respect for the insight of the late President Nixon. In a reference to MFN in his last book, "Beyond Peace," Nixon gently advised the young president to think long-term as much as possible. Nixon wrote, "Our preaching about human rights appears rash and thoughtless today. In 10 years' time, it will become irrelevant and in 20 years, absurd and ridiculous."

It is former President Jimmy Carter who played a key role in helping Clinton finally make up his mind. On 26 May, a few hours before he was scheduled to announce his decision, Clinton telephoned Carter to invite him to head an "independent human rights commission" specially targeting China whose establishment had been proposed by Christopher as a new means to put pressure on China. Not only did Carter turn him down there and then but he also asked Clinton to give up the idea and warned him against using intimidation in handling bilateral relations.

At a press conference at the White House in the afternoon on 26 May, Clinton announced an extension of China's MFN status and signaled his intention to delink trade and human rights during the annual review exercise in the years ahead. Faced with a rowdy and noisy bunch of international reporters, how did the president, long torn in different directions, feel? We don't know, probably a mix of embarrassment and relief. In an article published in the LOS ANGELES Times on 30, he wrote, "Linking human rights to MFN has led us to a dead end." This shows Clinton after all is a politician who can face up to reality.

#### **Clinton's Final Decision**

In the wake of Clinton's decision to extend China's MFN trade treatment and dissolve the link between MFN and human rights, the mass media in the West was gripped by yet another surge of interest in this matter. There were interviews and conversations with well-known personalities, summaries, and chronicles of events written from a variety of perspectives. The vast majority of commentators and experts welcomed the U.S. Government's latest decision, which they called a "victory for China's hard-line diplomacy."

The day after Clinton announced his decision, the Chinese Ministry of Foreign Affairs issued a statement which said in part, "This decision has created a favorable climate for strengthening and expanding Sino-U.S.

economic cooperation and trade and improving bilateral relations. It is consistent with the fundamental interests of the two nations and their people." The statement continued, "Regrettably it must be pointed out that even as the United States announced an extension of China's MFN status, it keeps in place the existing sanctions against China." In the interest of protecting the fundamental interests of the two nations and their people, China has demanded that Washington lift all sanctions against it as soon as possible and do away with all measures that militate against the development of bilateral relations.

From the Western perspective, Clinton's decision is indeed a "victory for China's hard-line diplomacy." The Chinese Government has consistently adhered to its basic stance, which is that there are many human rights models in the world, that nations may engage in a dialogue on an equal plane, but that China will never allow or accept any interference in its internal affairs in the field of human rights. Had the U.S. Government decided to cling obstinately to its course, China would have been fully ready. Although the abolition of MFN would hurt China economically, it relies mainly on its domestic market and is entirely capable of weathering the impact. As for the United States, it would have lost the Chinese market forever. China's position was highlighted by President Jiang Zemin in a meeting with Clinton in Seattle last November. The same position was emphasized throughout Warren Christopher's visit to Beijing in March, thus convincing the U.S. Government that it was a mistake to think that the Chinese would knuckle under the threat of American sanctions. In April the United States despatched its ambassador to Japan, Michael Armacost, on a secret mission to Beijing, carrying with him a new proposal that would permanently sever the link between trade and human rights.

Leaving aside all ideological differences and looking at the situation from a purely impartial angle, it is a mutually beneficial arrangement for the U.S. and Chinese governments to grant each other MFN treatment. There is simply no room for intimidation in bilateral relations. Admittedly, Chinese exports to the United States are running slightly ahead of its imports at the moment. During a recent visit to the United States, however, Vice Premier Zhou Jiahua called attention to the telecommunications equipment costing billions of dollars, a massive oil prospecting plan, and a collection of roads, bridges, and other construction projects with a total price tag of \$600 billion that are scheduled for completion in China before the year 2000. That demonstrates all too clearly the potential of the Chinese market.

#### Future Trends

Clinton's latest decision not only ends the problem of having to revisit the MFN issue every year, but clears yet another hurdle to China's resumption of its status as a contracting party to GATT. On 1 June the EC reiterated

its support for wrapping up the negotiations on China's accession by the end of this year. There is cause for celebration.

That the MFN issue was brought to a satisfactory conclusion is not only a function of the world trend today or a product of the courage of our party and government in sticking to our principles and their success in integrating principles with flexibility. It also has something to do with our standing as a great power, united, stable, and economically thriving. In his deliberations with aides on Sino-U.S. relations, Clinton has noted more than once that "we are dealing with more than 1 billion people."

In this sense, the 20-character policy put forward by the CPC Central Committee is profoundly important: "Grasp the opportunity, deepen reform, broaden the open policy, spur development, and maintain stability." The world is ever-changing and immensely complex, but provided we are all of one mind and keep a firm handle on the overall situation, we can overcome every difficulty.

#### Article Discusses Potential of CD Market

94CE0582A Hong Kong KUANG-CHIAO CHING [WIDE ANGLE] in Chinese No 261, 16 Jun 94 pp 34-36

[Article by Ting Yu (3060 7183): "CD Market has Great Potential"]

[Text] The Dazhongsi audio-video products retail market in north Beijing, a disseminating point for pirated compact disks [CD's], is often patronized by throngs of high school and college students. They would haggle with the vendors in groups of two or three, knowledgeably selecting those CD's they know to be counterfeit but not inferior in quality. As one college student tells it, a pirated CD there costs a dozen yuan or so, compared with the scores of yuan charged by a large bookstore for a CD imported through legal channels, even though there is no basic qualitative difference between the two. The vendors are friendly and let them pick and choose at their leisure. The students are usually able to find the CD's they want. The process works well for both parties and is a good match for the students' consumption level. Of the 40 students in a typical class, a dozen or so visit Dazhongsi every other week and buy three to five new CD's. Fewer and fewer people are buying cassette tapes.

#### China Has Vast CD Market; Sales Top 10 Million

People who buy only pirated CD's are not uncommon in Beijing and are have plenty of company in other provinces and areas, particularly those along the coast. Legitimate audio-video stores too are doing a booming business in the past two years, selling eight to 10 sets of opera CD's costing hundreds of yuan apiece, such as "Carmen" and "Carmelia," every few days. You can find plenty of consumers plunking down thousands of yuan

on CD's in one instance. Many bookstores have now joined the CD boom by setting up a special CD counter. New audio-video stores are springing up everyday. According to incomplete statistics compiled by the department in charge, CD sales have topped 10 million, including 1 million in Beijing alone. A growing economy is certain to expand the CD market in the interior further.

To people in the audio-video business, the emergence of the compact disc is nothing short of revolutionary. As soon as the first CD hit the market in the early 1980's, it has been a best seller worldwide. Global sales reached 770 million in 1990. In Europe and the United States, CD sales have already overtaken cassette tape sales. In Southeast Asia, Hong Kong, and Taiwan, the two are running neck and neck.

Back in the mid-1980's the China Book Import-Export Corporation was the sole authorized importer and exporter of finished CD products on the mainland. The imports were modest in quantity and consisted mostly of classical music CD's. Their consumers were musicians and intellectuals with refined tastes and a good ear for music. Some of them were even into collecting classical CD's. The compact disk was then regarded as highbrow culture not acceptable by the man on the street. This situation persisted until the last couple of years when a domestic CD industry came into existence in the interior.

#### CD Production Plagued By Overcapacity

Shenfei Laser Optical Systems Company, Ltd. was founded in October 1991 as a joint venture between Shenzhen Xianke Enterprise Group and the Philips Corporation of the Netherlands. Assembly lines were imported and the company was producing 5 million CD's and 1.5 million laser shipan a year. Subsequently, Huasheng Cassette Tape Company in Zhuhai, Guangdong, and the Shanghai branch of the China Record Corporation both began importing CD assembly lines and set up the Huaguang Laser Company, Ltd. and Lianhe Guangpan Company, Ltd., respectively. Between them these three companies had a reproduction capacity of over 10 million, enough to satisfy market demand at the time.

Within less than 2 years, however, the number of CD plants in China shot up to 25 with a total of 32 assembly lines capable of producing almost 100 million compact disks, greatly in excess of the potential demand. For a time supply outstripped demand and the industry suffered from overcapacity. One is reminded of the glut of color TV and refrigerator assembly lines on the mainland in the 1980's.

#### Why the Rush To Jump on the CD Bandwagon

Compact disk assembly line importing units essentially belong to any one of these four categories: audio-video publishing bodies with audio-video publishing rights,

reproduction and processing plants with an audio-video reproduction license, local enterprise groups with formidable economic muscle, and township and town enterprises. We can see that for units in the first two categories, importing CD assembly lines is a natural extension of their line of business. As for units in the last two categories which had no prior experience in the audio-video business, they were attracted to the business primarily by the outlook of CD production and its enormous profits.

It costs \$2 million to import a CD assembly line. Assuming an annual production capacity of 4 million CD's and an output value reaching 30 million yuan, one can recoup the investment in just a few years. No wonder so many companies scrambled to hop on the CD bandwagon. However, it turned out that the CD market was not as robust as some investors imagined. While the mainland market has great potential, tapping it will take a long time. In particular, it will be some time before hardware becomes readily available. The overseas market, also huge, is reaching a saturation point, making it difficult for China to establish a foothold there. According to studies, the vast majority of assembly lines in China today are operating under capacity. The number of CD's being processed is no more than one-quarter to one-third of capacity. Not only are funds wasted, but some companies, driven to scramble for business by declining profits, have been reduced to pirating CD's.

#### CD Piracy Disrupting Audio-Video Market

According to a survey by the International Recording Industry Association, at least one in four CD's sold in the world in the 1980's was a pirated or illegally reproduced product. Estimates put the total retail value of illegally reproduced CD's at more than \$1 billion in 1989. Compact disk piracy has become rampant in Southeast Asia in recent years. Warnings by and pressure from international intellectual property rights protection bodies have forced countries in the region to put more teeth in their copyright protection laws and regulations and stiffen penalties on those guilty of piracy. It was against this backdrop that overseas profiteers turned to China to find a way to skirt the system.

Piracy by overseas profiteers usually takes three forms. One, posing as a partner, the overseas profiteer supplies a Chinese company with the original copy for illegal reproduction. Two, in his guise as a subscriber and armed with bogus copyright proof, he may commission a mainland firm to reproduce CD's illegally. Three, he may simply move his CD reproduction facility to China and set up a joint venture there as an investor.

#### Guangdong as Center of CD Piracy

A small portion of CD's illegally reproduced in China by overseas profiteers are sold on the international market, but most circulate within China. Some data from Shanghai indicate that 95 percent of imported CD's sold

in China are smuggled goods or pirated copies. A recent survey by the State Copyright Bureau on dozens of CD stalls in Guangzhou finds that only three or four sold legal CD's.

Guangdong is the center of CD piracy in China. After a compact disk comes on the market in Hong Kong, it may be shipped to Guangzhou within 2 hours via a circuitous route and a pirated version can hit the market the next day. It is hard to tell which is the genuine article and which is the fake. It is said that of every 1,000 reproduced copies, typically over 90 percent are good ones. Informed sources in Hong Kong say that because of the flood of pirated CD's along the coast and in Hong Kong, CD sales in Hong Kong have dropped at least 30 percent.

#### How To Check CD Piracy

In a Chinese city, you may find a household which does not own a single book. What you cannot find is a household with no audio-video products. This joke illustrates the enormous demand of the Chinese audio-video market. Why are consumers partial to pirated CD's?

First and foremost, the price factor. Compact disk aficionados can afford the dozens of yuan it takes to buy a legitimate CD now and then, but cannot do so routinely; after all their economic resources are limited. Besides, popular and appealing CD's come on the market endlessly. So the only thing they can do is to select a few pirated CD's, inexpensive but good-quality, to satisfy their CD craving.

It would appear that lowering the prices of legitimate CD's is an effective way to restore order to the record market and bring piracy under control. In the experts' analysis, if CD assembly lines in the interior operate at 50 percent of capacity, CD prices may fall to 20 yuan or so, a price affordable by most consumers.

Since mid-April this year, Beijing, Shanghai, Guangdong, and other replaces have cracked down on CD piracy repeatedly. Guangdong despatched 3,329 men-times in raids on a single day, inspecting 1,600 stalls that sold pirated CD's and seizing 100,000 counterfeit CD's. A Taiwan-funded laser electronic company in southern China, which went into trial production in 1993, has been fined 250,000 yuan for manufacturing 120,000 pirated copies of 35 CD titles and slapped with a lawsuit by the International Recording Industry Association. The Intermediate People's Court in Shanghai has formally agreed to hear the case and will take a closer look at the legal liability of the Taiwan company involved.

The Eighth National People' Congress standing committee discussed the "Decision on Punishing Copyright Violations" at its seventh meeting in Beijing recently. Officials from the State Copyright Bureau who took part in drafting the "Decision" proposed that in addition to heavy economic penalties, there should be even more severe criminal penalties—prison terms up to five

years—for serious offenders. Once approved, the "Decision" reportedly will be a supplement to the existing "Copyright Law." The main purpose behind toughening criminal penalties is to deter copyright violations.

At the same time, the mainland will cut back on the imports of finished CD products. Instead it will purchase copyrights and turn them over to domestic manufacturers for reproduction. That may help solve the problem of under-capacity in CD production.

#### Folk Music CD's Fighting for Survival

According to the survey by the Chinese agency responsible for regulating the audio-video industry on scores of CD retails stalls in six cities in Guangdong, of the 2,000 CD titles available, folk music and performances by mainland singers numbered less than 50, the balance all featuring pop music from Taiwan, Hong Kong, the United STates, and Europe, or classical music. The same is true of the record market in Beijing.

#### New Trend in China: Spending Vast Sums To Package Popular Singers

One can recall a time when the domestic videotape industry, still struggling to find its footing, was dealt a heavy blow by a tidal wave of imported products. Ten years later, videotapes being shown across the country remain dominated by overseas performances.

As a matter of fact, CD's featuring Chinese folk music and operas are also the targets of piracy in Chinese communities in Southeast Asia and the United States. The "Liang-Zhu" CD, for instance, is heavily counterfeited. Many Chinese in the United States would like to lay their hands on CD's featuring such instruments as the guzheng, pipa, and erhu, as well as highly popular folk songs, which are hard to find on the market. Currently CD exports by the mainland are less than one-fifth of what it imports. Apparently the market for folk music CD's has enormous potential that may be tapped. The mainland now boasts adequate reproduction equipment, ample musical creation resources, and a strong line-up of singers, all of that translates into a measure of competitiveness. Production companies like Pacific Audio-Video Company, Guangdong Audio-Video Publishing Company, White Swan Audio-Video Company, and the Guangzhou branch of the China Record Company are all spending vast sums to sign up singers and promoting a host of young singers including Mao Ning [3029 1337], Li Chunbo [2621 2504 3134] and Yang Yaxing [2799 6877 3853]. They have turned out to be solid performers and their CD's are gaining popularity on the market.

The audio-video community in China is not about to hand over the mainland CD market on a similar plate again.

LABOR

1st Quarter's Financial Statistics

94CE0603A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 25,  
27 Jun 94 p 61

[Report: "PRC Financial Statistics for the First Quarter of 1994"]

[Text]

Table 1. National Credit Balance (Unit: 100 Million RMB)

Item	Balance at End of First Quarter 1994
All Deposits	23,461.73
Enterprise Deposits	9,298.98
Fiscal Deposits	649.22
Organizational Group Deposits	654.26
Urban Savings Deposits	12,599.89
Agricultural Deposits	157.39
Other Deposits	101.99
Bonds	108.93
Debts to International Financial Institutions	217.26
Currency in Circulation	5,834.60
Banks' Own Funds	2,178.95
Horizontal Dealings	3,113.37
Other	-217.84
Fund Source Total	34,697.00
All Loans	26,792.47
Industrial-Production Enterprise Loans	6,178.58
Commodity-Supply-and-Marketing Enterprise Loans	981.05
Commercial-Enterprise Loans	8,087.22
Construction-Enterprise Loans	990.53
Urban Collective-Enterprise Loans	1,002.08
Individual Industrial and Commercial Loans	29.17
Agricultural Loans	1,320.44
Fixed Assets Loans	6,110.70
Three-Kinds-of-Foreign-Trade Enterprise Loans	535.33
Other Loans	1,557.37

Purchase Bonds	908.20
Gold Account	12.04
Foreign Exchange Account	2,689.34
Assets in International Financial Institutions	402.95
Fiscal Borrowing	1,582.18
Horizontal Dealings	2,309.82
Fund Application Total	34,679.00

Table 2. Financial Trust and Investment Institution Credit Balance (Unit: 100 Million RMB)

Item	Balance at End of First Quarter 1994
All Deposits	1,571.03
Commission Deposits	1,169.95
Trust Deposits	261.79
Margin Deposits	14.68
Other Deposits	124.61
Issue Bonds	22.06
Securities Business Funds	107.02
Borrowing from PBC	52.28
Financial-Institution Horizontal Dealings	578.97
Bad-Debt Reserves	7.41
Own Funds	130.25
Settlement Profit	4.43
Other	448.79
Fund Source Total	3,222.24
All Loans	1,699.66
Commission Loans	1,017.61
Trust Loans	397.33
Leasing	163.73
Other Loans	120.99
Investment	439.52
Securities Business Account	181.04
Deposits in PBC	75.43
Payment-Deposit Reserves	44.32
Payment-Deposit Special Deposits	0.30
Financial-Institution Horizontal Dealings	343.50
Other	438.47
Fund Application Total	3,222.24

**Table 3. Other Bank Credit Balance (Unit: 100 Million RMB)**

Fund Source	Balance at End of First Quarter 1994
All Deposits	491.41
Enterprise Deposits	306.91
Urban Savings Deposits	76.03
Rural Deposits	3.17
Trust Deposits	90.78
Other Deposits	14.52
Financial Bonds	1.88
Securities Business Funds	2.91
Borrowing from PBC	25.32
Financial-Institution Horizontal Dealings	36.24
Bad-Debt Reserves	2.14
Capital Funds	42.98
Settlement Profit	6.09
Other	104.20
<i>Total</i>	713.17
All Loans	396.22
Industrial Loans	89.43
Commercial Loans	93.90
Construction and Capital-Construction Enterprise Loans	3.60
Contract and Household Operation Loans	1.06
Three-Kinds-of-Foreign-Trade Enterprise Loans	34.91
Agricultural Loans	9.93
Mid- and Long-Term Loans	14.72
Trust Loans	11.68
Other Loans	70.99
Investment and Leasing	35.64
Securities Business Account	16.83
Deposits in PBC	57.17
Payment-Deposit PBC-Deposit Reserves	46.26
Financial-Institution Horizontal Dealings	48.65

Cash in Treasury	4.68
Other	107.72
<i>Total</i>	713.17

**Table 4. Urban Credit-Cooperative Credit Balance (Unit: 100 Million RMB)**

Item	Balance at End of First Quarter 1994
All Deposits	1,481.09
Collective-Enterprise Deposits	521.02
Other Enterprise Deposits	154.06
Individual Industrial and Commercial Household Operation Deposits	68.27
Individual Savings Deposits	456.24
Other Deposits	281.50
Borrowing from PBC	23.96
Financial-Institution Horizontal Dealings	178.77
Own Funds	87.18
Settlement Profit	6.61
Other	409.45
<i>Fund Source Total</i>	2,187.06
All Loans	915.66
Collective-Enterprise Loans	581.32
Other Enterprise Loans	84.93
Individual Industrial and Commercial Household Operation Loans	72.02
Other Loans	177.39
Purchase Bonds	18.35
Deposits in PBC	28.89
Payment-Deposit Reserves	145.71
Payment-Deposit Special Deposits	2.06
Financial-Institution Horizontal Dealings	421.13
Cash in Treasury	22.87
Other	632.39
<i>Fund Application Total</i>	2,187.06

**Table 5. Rural Credit-Cooperative Deposit Balance at End of First Quarter 1994 (Unit: 100 Million RMB)**

All Deposits	4,693.49	All Loans		3,576.77
Collective Demand Deposits	625.97		Agricultural Loans	759.84
Collective Term-Deposits	42.51		Township-Enterprise Loans	1,911.62
Peasant Savings Deposits	4,025.01		Other Loans	905.31

**Table 6. Exchange Rates, Gold, and Foreign Exchange Reserves**

Item	January 1994	February 1994	March 1994
Exchange Rates:			
—Special-Drawing-Right-Unit Conversion to RMB (End-of-Period Figure)	11.9901	12.1486	12.2760
—U.S. Dollar Conversion to RMB (End-of-Period Figure)	8.7000	8.7044	8.7080
U.S. Dollar Conversion to RMB (Mean)	8.7000	8.7028	8.7023
Gold Reserves (Per 10,000 Ounces)	1,267	1,267	1,267
National Foreign Exchange Reserves (\$100 Million)	251.61	278.49	286.18

## AGRICULTURE

### Shaanxi Grain Procurement

94CE0612N Beijing JINGJI RIBAO in Chinese  
18 Jul 94 p 1

[Summary] By the beginning of July, Shaanxi Province had procured 810 million kilograms of summer grain, an increase of 200 million kilograms over the same period in 1993; of which over 730 million kilograms were state fixed quota procurement, exceeding the state fixed quota procurement task.

### Guangxi, Jiangxi Farmer Income 1st Half 1994

#### Guangxi Farmer Income

94CE0612I Chongqing XINAN JINGJI RIBAO in Chinese 20 Jul 94 p 1

[Summary] In the first half of 1994, per capita cash income of farmers in Guangxi reached 550 yuan, an increase of 118 yuan, or 27 percent over the same period in 1993, deducting for inflation the actual increase was 5.5 percent. Per capita farmer expenses were 258 yuan, a 30 percent increase, deducting for inflation the actual increase was about 4.5 percent. Per capita farmer investment in production was 214 yuan, a 19 percent increase, deducting for inflation the increase was about 2 percent.

#### Jiangxi Farmer Income

94CE0612K Beijing NONGMIN RIBAO in Chinese  
25 Jul 94 p 1

[Summary] According to a survey of 2,450 rural households in 35 counties of Jiangxi Province, in the first half of 1994 per capita cash income of farmers was 498.47 yuan, an increase of 142.88 yuan, or 40.2 percent over the same period in 1993.

#### NONGMIN RIBAO Commentary on Rural Party-Building

94CE0575C Beijing NONGMIN RIBAO in Chinese  
1 Jul 94 p 1

[Commentator article: "On Persistently Emphasizing Rural Party-Building"]

[Text] Since the Third Plenary Session of the 11th CPC Central Committee, China has made outstanding progress in rural reform and economic development. Our practice of the household responsibility system linking remuneration to output has sharply freed up our rural productive forces, leading to sustained agricultural development, two successive higher levels of grain output, and clearly improved peasant living conditions, with township enterprises in particular being a new force suddenly having come to the fore, and a great change having been wrought in our rural appearance. This was due primarily to the Party Central Committee having drawn up a series of correct rural policies to stimulate the initiative of the peasant masses, while also being

inseparable from rural grassroots party organizations having brought their key leadership role into full play.

*In recent years, the Party Central Committee and local party committees at all levels have paid quite a lot of attention to building rural grassroots party organizations, taking many crucial steps. The National Working Forum on Village-Level Organization-Building held in Laixi, Shandong in 1990 better clarified the guiding ideology of our rural grassroots party organizations and the status and role of village party branches, forming an order of complete village-level organization-building focused on party branches. From 1990 to 1993, several million government functionaries from throughout China were transferred to the rural areas to conduct indoctrination in socialist ideology, achieving good results in helping rural grassroots party organizations to develop a strong collective economy and in rectifying less advanced party branches. They also made a certain amount of progress in areas, such as running villages according to law, democratic management, and applied technical training for rural party members and grassroots cadres. In short, our rural grassroots party-organization mainstream is fine, playing a fighting-fortress role in leading the masses to turn poverty into wealth and build the spiritual civilization. Especially at crucial times, such as when fighting natural disasters and dealing with emergencies, Communist Party members have been in the forefront, sacrificing themselves for the people, and receiving high praise from the public.*

*But it also needs to be noted that under the new conditions of developing a socialist market economy, matters, such as how rural grassroots party organizations and rural party members are to play their roles, ways to reinforce control over mobile party members, and how to intensify party-building in township enterprises, are all subject to varying degrees of "the old methods not working, while the new ones are no good." Some grass-roots party organizations are weak and lax, playing their roles poorly or not at all; some party members have a weak sense of honor, responsibility, and party stand; some rural collective economies are weak, with party-branch public actions lacking economic grounds, rural party organizations short on cohesiveness, attractiveness, and appeal, and cadre-public relations quite tense; the role of intermediate-status rural party branches is unclear, with little action to lead the public in getting wealthy together and becoming comfortably well off; many local clans are growing in might, posing a stiff challenge to rural grassroots party organizations. Not conscientiously solving these problems would not only lower party prestige among the peasant masses, but also would impact rural economic construction and the development of all causes, even to the extent of threatening rural stability, and shaking the foundations of the party and the government in the rural areas. So party committees at all levels must pay a great amount of attention to reinforcing their leadership, absolutely not slackening rural grassroots party-organization building.*

*To strengthen our rural grassroots party-organization establishment, the first task is to fully recognize the extreme importance of the job. Agriculture is the grounds for economic growth, social stability, and national independence. Farm and peasant matters have always been essential ones affecting our overall party and state, being the basic grounds on which we consider all matters. Rural grassroots party organizations are the leadership core of all organizations and all work, being the party's foundation for all work and fighting capacity in the rural areas. All party principles and policies in the rural areas need them for implementation; the building of the two civilizations in the rural areas need them for detailed organization and implementation. Our rural grassroots party-organization establishment is tied to rural reform and economic development. Emphasizing rural grassroots party-building is the basic guarantee for intensified reform, the growth of the rural economy, and the achievement of joint prosperity and becoming comfortably well-off, as well as the key to doing good rural work. Meanwhile, we need to fully recognize that as our party's ruling status is expressed through the leading status of central and local party committees at all levels and the leadership role of grassroots party organizations, not doing grassroots party-building well in the vast rural areas would lose our party the support and trust of the vast numbers of peasants. So party committees at all levels need to proceed from the high plane of reinforcing and improving party leadership of rural work and consolidating the party's ruling status, fully recognizing the importance and urgency of strengthening rural grassroots party-building, and conscientiously, actively, and positively emphasizing rural grass-roots party-building.*

*In recent years, all areas have done a lot of work in the area of rectifying less advanced party branches, accumulating much successful experience, and achieving marked results. We now need to act in accord with the line of thinking on "focusing on rural reform and development to rectify less advanced village party branches, while rectifying well less advanced village party branches to promote rural reform and development," focusing on rectifying well branch teams, selecting well branch secretaries, and finding the right economic development paths, to establish an effective system. As intermediate-status party branches are broad in scope and large in number, their quality directly impacts our vast rural economic development and better living standards for most peasants. The keys to emphasizing the transformation and improvement of work by intermediate-status party branches are helping them to develop economic-growth thinking, recognize local advantages, find economic-development paths, and better lead the public in getting wealthy together and becoming comfortably well-off. "The key to rural prosperity is party branches, and the key to strong party branches is team leaders." Premised on adhering to the principle of having both ability and political merit, we need to free up our thinking, expand our horizons, and broaden our channels, to select for party branch-secretary positions those outstanding*

party members who truly support the party's basic line, emphasize ideals, the overall situation, and contributions, act in the public interest, are fair and honest, and can lead the peasants to get wealthy together. As to villages where the persons selected are certainly unsuitable, we can continue to select and appoint capable cadres from county and township organs, enterprises, and institutions to village posts. We need to better train village party-branch secretaries, raising as quickly as possible their ability to drive the rural market economy and resolve all social conflicts.

As township enterprises have developed, township enterprise party-building has become a key part of rural grass-roots party-building. In certain economically developed regions, party organizations in township enterprises make up 40 percent of rural grass-roots party organizations, with Party members accounting for 50 percent. So strengthening township enterprise party-building would seem to be very important and urgent. Township enterprise party-building needs to be closely integrated with enterprise production operations, to ensure the completion of all production tasks. Township enterprise party organizations need to use their own work to help the masses of Party members and employees correctly understand and implement party principles, policies, laws, and regulations, guiding enterprises to deal correctly with the relations among state, collective, and individual interests, thus ensuring that township enterprises grow soundly in the socialist direction. We need to act in line with township enterprise features to adjust and improve our party-organization establishment, rationalizing the relations between township-village and township-village-enterprise party organizations. As township enterprises have their own development patterns and features, their leadership system must neither copy the state-enterprise model or mechanically follow the rural party-branch function, being determined rather by factors, such as the benefits to enterprise production operations and the development of party-organization and party-member roles, as well as enterprise nature, size, and subordinate relations.

A sound rural grassroots party-organization system means carrying forward, as well as creating new ones. We need to continue to practice effective systems and methods, such as the "three meeting, one topic" system, the system of democratic appraisal of party members through discussion, party-member indoctrination, and our management system. But meanwhile, we need to act in line with market economy needs, by setting up systems, such as sound party-member goal management, and township party-Committee and village party-branch work methods. Our rural party-organization mode of action should be suited to the needs of new situations and missions. Working mechanisms under sound Party-branch leadership of regulations based on laws, villages run by regulations, and democratic management, are effective ways to develop the key leadership role of party branches and improve party-mass relations. Systems

practiced in certain places, such as party-member discussion meetings, village-delegate discussion meetings, and open village and financial affairs, play a role in "contributing to public understanding and cadre honesty," with very good results. The activities of certain areas in creating 100-million-yuan townships and "comfortably well-off demonstration villages" have been proved successful through practice.

*Rural party-member indoctrination, for now and some time to come, will mean indoctrination in the theory of building socialism with distinct Chinese characteristics, so that Party members will understand what is socialism with distinct Chinese characteristics and the basic ways of achieving it, to have clear fighting directions; indoctrination in party aims and party-member standards, to help party members establish correct values, carry forward the party's fine traditions, and serve the people wholeheartedly; indoctrination in party discipline and national law, to raise awareness of observing law and discipline; teaching of market-economy knowledge and applied techniques, to better enable them to lead the public in getting wealthy together. We need to focus on fully displaying the vanguard and model roles of party members, improving rural party-member management, particularly that of mobile party members, to solve the "pockets party-member" problem. Through ideological and political work, we need to help our youth to establish the right outlook on life and values, stimulating their political initiative, and guiding them to actively close ranks with party organizations. We need to bring into full play the role of CYL organizations in recommending to party organizations outstanding CYL members and youth for party membership. Our priority in getting youths into the party should be placed on junior and high school graduates, demobilized and retired servicemen, and key township enterprise cadres with frontline production knowledge, awareness of serving the people, and ability.*

#### Guizhou Grain, Rape Output, Area, Procurement

##### Grain, Rape Output

94CE0612J Chongqing XINAN JINGJI RIBAO  
in Chinese 20 Jul 94 p 1

[Summary] Gross output of summer grain in the first half of 1994 in Guizhou Province was 1,875,000 tons, a 10.6 percent increase over the same period in 1993. Gross output of rape was 409,000 tons, a 6.1 percent increase.

##### Grain Area, Rapeseed Price

94CE0612M Chongqing XINAN JINGJI RIBAO  
in Chinese 15 Jul 94 p 1

[Summary] This year the summer grain area in Guizhou Province was 14,667,000 mu, an increase of 760,000 mu, or 5.5 percent over 1993. At present the procurement price for rapeseeds is about 2.4 yuan per kilogram, a 50 percent increase over 1993.

**Rapeseed Procurement**

94CE0612P Chongqing XINAN JINGJI RIBAO  
in Chinese 27 Jun 94 p 1

[Summary] By the end of June, grain departments in Guizhou had procured 14,651 tons of rapeseeds, an increase of 4,824 tons, or 49 percent over the same period in 1993.

**Zhejiang Regulations on Farm Taxes**

94CE0584B Hangzhou ZHEJIANG RIBAO in Chinese  
3 Jun 94 p 2

[Text of Provincial Enforcement Measures to State Council Tax Regulations and Enforcement Order signed by Provincial Governor Wan Xueyuan (8001 1331 6678)]

[Text] Measures by Zhejiang Province for the Enforcement of the "State Council Provisions on Levying Agricultural Tax on Incomes From Special Agricultural Products"

Decree No 47 of the People's Government of Zhejiang Province:

The present measures promulgated by Zhejiang Province for the enforcement of the "State Council Provisions on Levying Agricultural Tax on Incomes From Special Agricultural Products" shall come into force on the day of their promulgation. Provincial Governor Wan Xueyuan, 20 May 1994.

Article 1: For the rational regulation of incomes from agriculture, forestry, animal husbandry, and fishery, and for a fair distribution of the tax burden, also to promote all-round development of agricultural production, the present enforcement measures to the "State Council Provisions on Levying Agricultural Tax on Incomes From Special Agricultural Products" (hereafter "State Council Provisions" are promulgated herewith.

Article 2: Units and individuals who produce taxable special agricultural products within the borders of this province are liable to special agricultural products tax (liable units and persons hereafter referred to as "taxpayers") and shall pay special agricultural products tax [SAPT] according to the State Council Provisions and the present enforcement measures.

Article 3: Incomes from the following special agricultural products shall fall within the scope of the SAPT:

1. Income from tobacco, which includes income from air-cured as well as from flue-cured tobacco;
2. Income from horticulture, which includes income from fresh and dried fruit, tea, silkworm cocoons, medicinal herbs, melons and gourds as fruit, flowers, nursery stock for economic forests;

3. Income from aquatic products, which includes income from all animal life and plants harvested from or artificially cultured in seawater or freshwater, or cultured on land or in ponds reclaimed from the sea;

4. Income from forests, which includes logs, raw bamboo, raw lacquer, pine raisin, coir [zong pian], wood oils;

5. Income from livestock, which includes hides of cattle, pigs, and sheep, sheep's wool, rabbit hair, cashmere wool.

6. Income from edible fungi, which includes xianggu, mogu, jinzhengu, houtougu, and pinggu mushrooms, as well as black tree fungi and "silver-mushroom" tree fungi;

7. Income from other types.

Article 4: Items liable to SAPT and tax rates shall be enforced according to the table of tax items and applicable tax rates appended to the present enforcement measures. The provincial people's government authorizes the provincial department of finance to adjust specific taxable items and tax rates which had been determined by the provincial government.

Article 5: The SAPT shall be levied on the actual income from the taxable special agricultural products and shall be computed according to the prescribed tax rates. Actual incomes from special agricultural products shall be computed in Renminbi currency.

Actual incomes from special agricultural products shall be computed by the local tax collection agency according to the actual quantity of the special agricultural product and its state-prescribed procurement price or its purchase price in the market. The formula for this computation shall be:

Actual income from special agricultural product equals actual quantity multiplied by the purchase price.

End products resulting from uninterrupted processing of taxable but not yet taxed special agricultural products shall pay tax as for the original product. Self-produced and self-consumed special agricultural products shall be taxed SAPT at the highest tax rate applicable to producers or purchasers.

Methods of computing incomes from specific special agricultural products shall be determined separately by the provincial department of finance.

Article 6: Tax Reductions and Tax Exemption for Special Agricultural Products:

1. Agricultural science and research organizations and agricultural educational institutions, approved by people's governments of county or higher ranks, are exempted from tax on such special agricultural products which they require for scientific experiments for the duration of such experiments;

2. Persons who produce special agricultural products on newly developed barren hills, wasteland, land reclaimed from the sea, and on water surfaces shall be exempt from tax for the first to the third year after actually gaining incomes from such operations.

3. Exemption from tax shall be permitted in the case of the old revolutionary bases, in areas inhabited by minority nationals, in poverty districts, and in other districts inhabited by poor peasants whose subsistence problems have not yet been solved and where payment of taxes would indeed present actual difficulties.

4. Where crops of special agricultural products have failed due to natural calamities, tax reductions or tax exemptions may be considered according to circumstances.

In cases of SAPT reductions or exemptions as per above-stated provisions, the taxpayer shall apply for such, and the tax collection agency at the county, after examination and verification, shall give consideration to granting tax reduction or exemption. Tax reduction or exemption by a district of an item listed as taxable in the provisions of the State Council must be reported to the State Council or the Ministry of Finance for examination and approval.

Article 7: The times for payment of SAPT shall be determined by the tax collection agency, based on the actual conditions of the locality concerned.

Article 8: Taxpayers shall report to the local tax collection agency and pay tax within 30 days from the day the tax liability shall have occurred. The specific dates for tax payments shall be determined by the county-rank tax collection agencies.

Article 9: SAPT due for the production of taxable special agricultural products shall be paid at the place of production or the place where the tax is computed. In the case of purchases of taxable special agricultural products

(including cases where tax may be withheld), SAPT shall be paid at the place of purchase.

Article 10: In case the taxpayer does not truthfully report his income from special agricultural products, the local tax collection agency shall appraise, determine, and collect the tax lawfully due.

Article 11: Units or individuals who purchase tobacco, tea, white and black edible tree fungi, expensive food-stuffs, aquatic products, logs, raw bamboo, raw lacquer, pine raisin, and livestock must pay the tax amount according to the purchase price and according to the prescribed tax rate.

Units and individuals who buy taxable products other than those listed in the preceding paragraph may, according to the provisions of the Ministry of Finance, withhold the tax for later transmission.

Article 12: The SAPT is levied by the local organs of public finance, and collection is to be effected by the responsible organizations of the local village and township people's governments.

Article 13: Imposition and administration of the SAPT shall be carried out according to the present enforcement measures; in case of any deficiency found in the State Council provisions and the present enforcement measures, reference should be made to the "Law of the PRC Governing Taxation and Tax Administration."

Article 14: Starting with the 1994 tax year, SAPT shall be computed and collected according to the present enforcement measures. Collection of the local surtax to the SAPT is herewith suspended.

Article 15: The provincial department of finance shall be responsible for the interpretation of the present enforcement measures. The said department shall separately determine specific measures for the collection and administration of the SAPT.

Article 16: The present enforcement measures shall come into force on the day of their promulgation.

Table of Tax Items and Tax Rates of the Special Agricultural Products Tax of Zhejiang Province

Categories	Scope of Taxation	Applicable Tax Rates	
		Producer	Buyer
1. Tobacco products	air-cured tobacco, flue-cured tobacco		31%
2. Horticultural Products	Tea	7%	16%
	mandarin oranges, apples, pears	12%	
	pomelo, xiangpao, oranges, kumquat	10%	
	peaches, dates, loquats, wild and cultivated strawberries, grapes, chestnuts, gingko nuts, nuts of the fei [yew] tree, walnuts	10%	

Table of Tax Items and Tax Rates of the Special Agricultural Products Tax of Zhejiang Province (Continued)

Categories	Scope of Taxation	Applicable Tax Rates	
		Producer	Buyer
	melons/gourds as fruit (incl. watermelons, cantaloupe), decorative flowers, nursery stock for economic forests	8%	
	silkworm cocoons	8%	
	baishu, zhebei, shaoyao, yurou, hangba-iju, fuling, houbu, lingzhi [medicinal herbs]	5%	
3. Aquatic Products			
	fish, shrimp, crab, shellfish, jellyfish, turtles, cod, eel, cuttlefish, squid, unio, pearls; reeds, mat straw, cattail grass, lotus root, water chestnuts, kelp, seaweed, agar	8%	5%
4. Forestry Products			
	raw wood (logs, sections, boards, ties, secondary cut-up wood material, raw bamboo)	8%	8%
	fresh and dried bamboo sprouts	8%	
	raw lacquer, pine raisin	10%	10%
	wood oils (comprising tung tree seed, tallow tree seed, rapeseed, coir [zong pian])	5%	
5. Livestock			
	cattlehide, pigskin, sheepskin, sheep's wool, rabbit hair, cashmere		10%
6. Edible Fungi			
	xianggu, mogu, jinzhengu, houtougu, pinggu mushrooms	8%	
	black tree fungi, "silver-mushroom" tree fungi	8%	8%
7. Luxury Foodstuffs			
	sea cucumbers, abalone, scallop, swallows' nests, fish lips, shark's fins	8%	25%
8. Products of Other Categories			
	asparagus, sugarcane, fragrant flowers (as tea ingredient)	5%	

**Situation in Grain Futures Market**

94CE0532A Beijing NONGMIN RIBAO in Chinese  
18 May 94 p 2

[Article by Wu Dai (0702 0108): "Grain Market Completely Emerges From Slump—Situation of China's Grain and Edible Oil Futures for This Year"]

[Text] According to forecasts by authorities at the Zhengzhou Commodities Exchange, the domestic grain futures market for 1994 will completely emerge from a softening and a slump. The prices for grain and edible oil are expected to go up another notch from their 1993 base prices. The rise in prices for fine grains (wheat, rice) is expected to be more steep, that for coarse grains will be less steep, and the price for oils will stabilize at a fairly high level. This is due to the following factors: First is the

obvious rise in present market prices. Second is a reduction in the volume of staples imported. Third is the effect of state policy. Any announcement by the state about an increase in the purchase price for food staples will directly affect the extent that prices for wheat and rice will rise. Any reform to its policy of import grain subsidies and merging exchange rates will also noticeably cause prices for imported grain and oil to rise, as does the appearance of tax system reform. Fourth is the influence of the international market. During the latter part of last year, the world's chief food-producing nations encountered frequent natural disasters which cut into their production. A drop in production affected the total food supply and trade volume which showed corresponding drops.

Because the world demand for wheat, rice, corn, and soybeans is great, world foodstocks for 1994 has dropped

to their lowest level since the 1980's. This caused periodic rises in the world grain trading prices, which in turn pulled grain prices up in China. Because of various factors, contracted prices for monthly deliveries of grain futures during 1994 at the Zhengzhou Commodities Exchange have been forecast for the whole year ahead of time. Average prices for a mix of wheat, corn, and soybeans during the period 3-17 January at the Zhengzhou Commodities Exchange was 1,468 yuan per ton, 24.93 percent higher than the annual average for 1993. According to separate pricing by commodity, the monthly averages for contracted deliveries already made show 1,070 yuan per ton for wheat, 33.75 percent higher than the 1993 average; 906 yuan per ton for corn, 24.11 percent higher than 1993; and 2,427 yuan per ton for soybeans, 21.65 percent higher than 1993. Of course, as regulation of the state's grain policy and other factors affect grain prices, futures prices are also similarly affected, but the price of grain futures basically reflects the level of spot grain prices for 1994. Authorities have emphasized that as reforms deepen, to protect the interests of the producer and the consumer, the state has gradually strengthened its macroeconomic control of the grains market. As the result, grain prices for 1994 will tend to make more sense, and the overall picture for the grains market will be a stable one.

### **Reform of Cotton Marketing Mechanism Analyzed**

94CE0588A Beijing *ZHONGGUO GUOQING GUOLI* [CHINA NATIONAL CONDITIONS AND POWER MONTHLY] in Chinese No 5, 28 May 94 pp 34-36

[Article by Cheng Jianhua (4453 1696 5478), Economic System and Administration Research Institute, National System Reform Committee: "Historical Analysis of China's Cotton Marketing System Reforms"]

#### **[Text] 1. Factual Background for Raising the Cotton Issue Again**

The second all-time bumper harvest year for cotton in China was 1991. Cotton output reached 113.5 million dan (5.675 million tons). The domestic market had more than enough to supply domestic needs, so 200,000 tons of cotton was exported. Because of an insufficiently accurate judgment about the cotton supply and demand situation in the wake of the bumper harvest, once a cotton glut was apparent, preferential policies to support cotton production were scaled back. In addition, prices of the means of production rose, causing an increase in production costs. Consequently peasant interest in growing cotton fell, a decline in the country's total cotton output ensued. State Statistical Bureau published statistics show a gross output of 90.59 million dan of cotton in 1992, 20 percent less than in 1991. National cotton output continued to slide in 1993, output for the entire year amounting to 3.76 million dan (75.2 million tons), 16.6 percent less than in 1992. Because cotton supply did not meet demand, the asking price for cotton in the

nation's markets rose steadily. The price of cotton used by textile firms rose from 8,000 yuan to 12,000 yuan per ton. Information from the State Statistical Commission's Light and Textile Industries Department as of the deadline for submission of this article showed a rise to as much as 16,000 yuan per ton. An International Cotton Consulting Committee analysis says that because cotton inventories in countries other than China are generally low everywhere, world cotton prices may increase moderately during the 1993-1994 and the 1994-1995 periods. The New York Commodities Exchange's cotton futures forecast as of 12 January 1994 was for a March 1994 trading price of \$.696 a pound (\$1,866 per ton), and a May trading price of \$.7066 a pound (\$2,090.60 per ton).

In view of the soaring sale price of cotton, and no decontrol of the cotton procurement price, the gap between procurement and sale price widened steadily, providing fat profits for cotton dealers. The enormous cotton procurement and sale price differential powerfully attracted units not authorized to deal in cotton, but that are part of the supply and marketing system, to deal in cotton. Because of the shortage of supply and the soaring price of cotton, numerous textile firms verged on halting or partially halting production.

The cotton problem has now attracted a great deal of concern among State Council leaders. This article seeks to use cotton marketing system reform, which has a major influence on cotton production, to make a historical analysis that sheds light on the systemic reasons for the large ups and downs in China's cotton output.

#### **2. Fifteen Years of Reform Have Had No Real Impact on the Cotton Procurement System**

The most enduring institution in the procurement of agricultural products in China since the founding of the PRC, and one that still exists today, is the centralized procurement and centralized marketing system. Centralized procurement began in 1953 with the policy of centralized marketing of grain. It subsequently spread to all category 1 products. Between 1954 and 1978, the government bought all cotton. In 1980, fixed base figure procurement of cotton began. On 1 January 1985, The CPC Central Committee and the State Council promulgated the "Ten Policies for Further Invigoration of the Rural Economy." This document explicitly provided that beginning in 1985, except for certain specific kinds of goods, the state would no longer hand down centralized procurement and assigned procurement quotas for the peasants to fill. Centralized procurement of grain and cotton was abolished in a switch to contract procurement. All grain not contracted for could be sold in markets. Uncontracted cotton could not be sold in markets, however. This marked the end to the country's 33 year long centralized cotton procurement system. With this reform, China's cotton procurement system took a major step forward. However, this reform encountered a series of difficulties from the very beginning.

Fixed procurement plans lacked sufficient attractiveness. Sole reliance on voluntary agreement made realization of state cotton procurement plans difficult. Cotton allocation showed great inelasticity. Fixed procurement could not be depended upon. The fixed procurement system clashed sharply with cotton supply requirements.

Reforms began with the procurement system, but the allocation system was rarely affected. In order to ensure cotton supply, the state must purchase a sufficient quantity of cotton. As the supply of cotton declined and its market price rose, the government lost its ability to bargain with peasants about the exchange of commodities in the procurement of cotton. Many jurisdictions had no choice but to resort once again to coercive administrative methods to make the fixed contract procurement system work. They used means such as market embargoes to ensure contract fulfillment. Beginning in 1985, China's cotton output declined for several years in a row, demand exceeding supply. Essentially, contract procurement re-evolved into state centralized procurement. Fixed contract procurement was coercive to a very great extent. The amount of fixed procurement was largely fixed. Producers had no marketing rights. The cotton procurement system had to contend with a cotton shortage. Cotton production in China set an all-time high in 1984 causing a cotton glut. This presented a very good opportunity to reform the centralized procurement system, so in 1985, the central authorities promptly proposed reform of the central procurement system, instituting a fixed contract procurement. However, because of the ensuing decline in cotton output for several years in a row, the old centralized procurement method had to be revived, coercive administrative methods used to consolidate cotton resources when money for cotton procurement was in short supply.

### 3. Procurement Price Readjustments Are Main Form of Cotton Marketing System Reform

In order to relieve the problem of overly low prices paid for agricultural products, thereby further narrowing the difference between prices of industrial and agricultural products, the state decided to raise the cotton procurement price moderately beginning on 1 August 1978. It raised the cotton procurement price 10 percent. This meant that the procurement price of ginned cotton rose nationwide from an average 115 yuan to 126 yuan per dan. On 1 March 1979, the State Council decided to raise procurement prices for some agricultural products beginning in March. It raised the cotton procurement price 15.2 percent, and paid an additional 30 percent bonus price for all excess cotton procurement. In 1980, the state raised the cotton procurement price once again, this time increasing it an average 10 percent nationwide. In other words, the average cotton procurement price nationwide was raised to approximately 172 yuan per dan. The formerly instituted 30 percent excess procurement price, and the 5 percent subsidy paid in north China cotton growing areas continued in force.

A hiatus existed between the procurement price of cotton and the supply and demand situation, and the peasants had no contact whatsoever with markets. Consequently, the government's three consecutive year increase in cotton procurement prices, and its award sales policy to compensate for the rise in prices of inputs into cotton growing and the natural rise in cotton prices, stirred the peasants' interest in cotton production once again. Cotton output rose steadily, the country's cotton output reaching 71.969 million dan in 1982. This was the highest output in the world. It produced a current year balance between supply and demand plus a surplus. China changed from a cotton importing to a cotton exporting country. The inertial effect of three years of procurement price rises brought cotton production in China to a all-time peak in 1984 when gross output totaled 125.16 million dan.

Payment for the three consecutive year cotton price increases came out of the national treasury. They were not added to cotton business costs. The more bumper cotton harvests, the greater the treasury's difficulties. The country was between a rock and a hard place. Either the peasants had no interest in growing cotton, or the treasury's burdens were too great. Inasmuch as the cotton sale price had not been decontrolled, the rise in cotton procurement prices applied to only one half the market. It depended on payments from the central government treasury. The bumper cotton harvest of 1984 produced a relative cotton glut. The cotton inventory added to the government's financial difficulties. With improvement of the cotton supply, the State Council decided to change the excess cotton procurement price beginning in 1984. For three years running, the percentage paid for excess procurement declined. Accompanying the decline in the cotton procurement price was a 3.497 million ton drop in cotton procurement nationwide in 1985. This was a 35 percent decline from 1984. In 1986, procurement fell to 3.1 million tons, a 35 percent decline from 1984. Once again demand for cotton was greater than the supply. In order to spur cotton production, beginning with the marketing of the new cotton crop in 1987, the State Council applied an inverse 3:7 ratio procurement price in cotton growing areas north and south. [A 3:7 ratio procurement price means that the purchase price was calculated on the basis of 30 percent of the state procurement price and 70 percent of the excess procurement price]. This resulted in the procurement price of southern standard grade cotton from 163.30 yuan to 176.42 yuan per dan, and a rise in the procurement price of northern standard grade cotton from 172.04 to 176.42 yuan per ton. Thus the procurement price of northern and southern cotton became the same. In 1989 and 1990, cotton procurement prices were increased again. The forced rise in cotton procurement prices for three consecutive years spurred cotton production. In 1991, cotton procurement in China exceeded 100 million tons once again, making this the second all-time bumper harvest year. The tug of war

between cotton supply and demand eased. Subsequently, cotton output fell during 1992 and 1993.

Inasmuch as cotton marketing system reforms had no substantive effect, the state raised cotton procurement prices intermittently. This somewhat market-oriented reform satisfied the market-like demand that stemmed from a rise in cotton production costs and a rise in cotton sale prices, and it spurred cotton production. Nevertheless, this sort of national price raising, which was an expedient device used in the absence of a smooth cotton commodity marketing mechanism, contains several serious problems as follows: First, this sort of price increase is passive. Since cotton sale prices were not decontrolled, the added expense incurred in raising the procurement price was borne by the treasury. Statistics show that in 1991 alone the state paid 42.22 yuan of public funds for every dan of cotton it purchased. (This included a 30.62 yuan government subsidy, a 2.50 yuan diesel fuel subsidy, and a 9.10 yuan chemical fertilizer award sale subsidy). The total bill for the entire year amounted to 4.281 billion yuan. This burden equaled the amount that Shanghai paid into the national treasury in half a year. Raising the procurement price of cotton promoted cotton production, but it also increased the government's financial burdens. Therefore, every time it raised the price of cotton, the state had to balance the amount of cotton produced against the financial outlay it could afford. Second, when government raised the cotton price at the cost of an increase in financial outlays, market reaction lagged. The procurement price could not be raised at once on the basis of market demand. It could not immediately arouse peasant interest in cotton production. Since the state-set procurement price was not a market equilibrium price shaped by supply and demand, and was generally lower than the market price, it artificially decreased the producers' profits.

#### 4. Overall Evaluation of Reform of China's Cotton Marketing Mechanism

The actual process of cotton marketing mechanism reform shows both advance and slowing. State plans continued to control cotton procurement, price setting, the allocation of supplies, and sales. Reform had no substantive impact on the cotton marketing mechanism. Major advances have been scored in reform of China's rural marketing mechanism since the Third Plenary Session of the 11th Party Central Committee. Remarkable accomplishments have been made. Today, an overwhelming majority of agricultural products have been decontrolled. However, in commodity marketing mechanism reform, cotton has been the last commodity for which the state sets the price and exercises a monopoly.

Progress in reforming China's cotton marketing mechanism has not been great. Reform measures have gone round and round, the most fundamental reason being the several ups and downs in China's cotton production since the 1978 reform and decontrol. In China, cotton is the number one cash crop after grain. It is the main raw material used in the country's textile industry. In China, the textile industry has always been a main industry that has produced a large amount of foreign exchange from exports. In most years following the founding of the PRC, cotton was in short supply. Because of cotton's importance and scarcity, the state exercised stringent plan control over cotton marketing. In 1984, China's cotton output set an all-time record. For a time, a cotton glut existed. It was then that the state proposed some measures to reform the cotton marketing mechanism that were suited to market orientation. However, due to the rapid slide in cotton output and the mindless expansion of the textile industry, a cotton shortage occurred once again, so there was no choice but to revive plan control. This stabilized cotton production for a time, but increased the state's fiscal burdens. Following a bumper cotton harvest, peasants experienced difficulty selling cotton, so a great decline occurred in the next cotton production year. Great fluctuations in cotton supply and demand made equilibrium difficult to attain. Either supply did not meet demand, or else a cotton glut hurt the peasants. Following the second great bumper cotton harvest of 1991, cotton marketing mechanism reform measures were inaugurated once again. However, because of the consecutive year decrease in cotton production during 1992 and 1993, the old road of plan control of cotton marketing could not be taken again.

Because cotton marketing mechanism reform and cotton production are closely linked, and because of the effect on cotton production of not only artificial factors, such as policy, but natural factors such as flood, drought, frost, and insect infestation calamities, it is extremely difficult to choose an opportunity to reform the cotton marketing mechanism. Some people say that China missed the best opportunity to reform the cotton marketing mechanism, which was between 1984 and 1987. This was a time when the state had ample reserves on hand that permitted it to exercise macroeconomic regulation and control and also to deal with natural disasters. Complete reform of the cotton marketing mechanism has been on the agenda ever since 1990. During the winter of 1990, the State Council's Research Office organized agencies concerned to prepare a series of research reports on the cotton marketing reform issue. These were provided to policy makers for their reference. In 1992, the State System Reform Committee also drew up specific methods for reforming the cotton marketing mechanism. However, because of the lack of suitable opportunities, it has been difficult to inaugurate reforms.

**Rural Schools Non-Attendance Rate Explained**

94CM0345B Beijing RENKOU YANJIU  
[POPULATION RESEARCH] in Chinese No 87,  
29 May 94 p 64

[Article by Yang Guanjun (2799 0385 6511) of Henan Provincial Rural Socioeconomic Survey Team: "Current Situation of Rural School-Age Children's Non-Attendance in School, Its Reasons and Solutions"]

[Excerpt] In recent years, basic education in rural areas has declined under the influence of social and economic factors. The question that many rural children of primary and secondary school age are not attending school has drawn party and government attention and aroused the concern of all social sectors. Yet, our sample surveys conducted since 1992 covering rural children in Henan Province still show that the downslide of basic education in the countryside has not been completely corrected and the number of "dropouts" from primary and secondary schools have continued to grow.

### 1. Current Situation and Characteristics of Children's Non-Attendance in School

In 1992, there were 8,289 children aged 7-14 in the 14,358 rural families in 42 counties covered by our survey. Among them, 761 were not attending school. The out-of-school rate was 9.2 percent, which was 1.4 percentage points higher than the 1991 record. The problem of rural children's non-attendance in school has the following characteristics: a) There are more girls than boys not attending school. Of the above-mentioned 761 children, 467 were girls, accounting for 61.4 percent of the total. The out-of-school rate was 12 percent for girls and 6.7 percent for boys, the former being 5.3 percentage points higher than the latter. b) In terms of age, children aged seven, eight, 13, and 14 are remarkably more likely to be out of school than children between these ages. This means that now in the countryside some children are not sent to school when they have reached the school age, and some students have dropped out before graduating from primary or junior high schools. c) As far as the location is concerned, the out-of-school rate varies from place to place. It is remarkably higher in eastern and southern Henan, where the economy is relatively underdeveloped. Compared with the province's average rate, it is 4.3 percentage points higher in eastern Henan and 3.5 percentage points higher in southern Henan.

### 2. Reasons for Failure To Attend School

According to our surveys, numerous reasons exist for school-age children in Henan's rural areas failing to attend school. Chief among the reasons are the following: a) Tuition and other school expenses are so high that they are unbearable to the average rural household. This is the primary reason that some rural children cannot go to school. It accounts for 26.4 percent of the cases of failure to attend school among the children aged 7-14 we have surveyed. b) Another reason is poor performance in

school. Of the out-of-school children, 18.3 percent are dropouts because of their poor performance in school—they have either left school of their own accord or have been forced to do so by the school. c) The schools do not have sufficient classrooms to accommodate the students. Our 1992 survey showed that, among the cases of rural children failing to attend school, 5 percent were due to "insufficient classrooms." d) Some children are required to help earn subsistence for the family. In the great tide of the market economy, some parents feel that "everything is unworthy; only making money is laudable." And under these new circumstances, "the theory that study is of no use" has begun to revive. Our surveys reveal that students quitting school to help earn subsistence for their families account for 5 percent of school non-attendance. e) The concept that boys are more important than girls is also a reason.

### Effects of Failure to Attend School

In the first place, the problem of children's non-attendance in school affects our efforts to raise the nation's overall cultural level. Rural children account for about 80 percent of the total number of children and more than a quarter of our population. An increase in the rate of out-of-school rural children, and accordingly an increase in new illiterates and less educated people, will seriously hamper our efforts to raise the cultural level of our whole nation. Secondly, the problem will be a drag on the healthy development of the rural economy and even our national economy as a whole. The education background of country laborers has a direct bearing on the development of the rural economy. To make great headway in developing the rural economy and to modernize our agriculture, the rural people must have a certain level of education and possess a certain amount of science knowledge. Thirdly, the children's non-attendance in school is an additional factor causing social instability. According to investigation, the crime rate among "out-of-school children" is 3.5 times that of children who are studying in school. [passage omitted]

### Psychological Roots of 'School-Weariness'

94CM0345A Fuzhou JIAOYU PINGLUN  
[EDUCATIONAL REVIEW] in Chinese No. 56,  
20 Apr 94 pp 69-70

[Article by Li Jinbing (2621 6855 3521): "Psychological Roots and Solution of School-Weariness' Among Secondary School Students"]

[Excerpt] The writer has distributed a questionnaire to 50 students with poor performance in school. The result shows that as many as 43 of them, or 86 percent, are weary of study, and the more weary they are, the worse their academic performance. Analyzing the students' "school-weariness" to find its root causes and exploring ways to solve the problem is a matter deserving the great attention of educators concerned with the ethical training of students in secondary schools. Following is the writer's preliminary study and analysis in this regard:

The causes of school-weariness are complicated and diverse. There are not only social and family factors, but also factors from within the school.

*School factors.* As the students' study and activities at school are subject to school factors, we should, of course, deal with these factors first. Some teachers act rigidly in teaching. Their teaching methods are inflexible, their lectures dull, and their words boring, unable to induce the students' interest in learning. Other teachers just repeat what the book says and use a cramming method to force the students to learn by rote. All these teaching methods, disagreeable to the mental characteristics of young people, artificially place a psychological hindrance in the students' minds and dampen their enthusiasm about learning. The writer once conducted a special poll about a course for which the students in this county have a low average score. According to 90 percent of the students in the class, the most significant reason for the low score is that the teacher only cares about teaching, but not learning. Their teacher, they complained, never thinks of how to guide them to absorb knowledge but forcibly instills in them what the book says. As can be seen, the improper teaching method is a major reason for the students' "school-weariness." Another reason is strained teacher-student relationships. Some teachers cannot properly deal with students' opinions and suggestions; they are even prejudiced against the students and blame or ridicule them in the class on one pretext or another. Others even punish students corporally, and so forth. Such teacher-student relationships have often caused the students to dislike their teachers. Their dislike for teachers may develop into a dislike for the course taught by the teachers and result in a psychological rebellion against study. When such rebellion develops to the extreme, the students may resist or have antagonistic feelings and behaviors against study. If these feelings appear in the course of learning, it would easily induce "school-weariness." School-weariness may also appear after a student has suffered repeated failures and frustrations in learning. The most common example is that when some students have failed examinations again and again because they are not intelligent enough, have used an improper learning method, or failed to study hard, they have an unhealthy sense of having been neglected and feel lost. Frustrated though they are, they get no encouragement or guidance as to what they should do. Instead, they are criticized, ridiculed, and despised by their teachers; sometimes, they are blamed and even

beaten by their parents. They thus feel bewildered, lose their mental balance, and more often than not lose their confidence in study and courage to live. Under such circumstances, they become dispirited, sad, daunted, and anxious. Over time, this can result in a conditioned psychological reflex that leads them to believe "study is a pain." When they see schools, teachers, books, low test scores, or things related to study, they feel impending disaster, and "school-weariness" appears as a matter of course.

*Social factors.* Some unhealthy practices in society can affect students' view about study and distort their minds. Unhealthy practices such as seeking material benefits, choosing glamour jobs, "going by the back door," and establishing underhand connections for the sake of personal gains can produce very bad effects on the students. Affected by these practices, the students have the misunderstanding that "to study or not to study makes no difference, and the result of studying hard or not studying hard is the same." They thus become short-sighted, cannot cherish the idea that study is one of their inherent needs, and are unable to use that idea to propel their study. Usually, while their bodies are at school, their minds are not. Their study becomes passive, and they cheat in examinations. Since there is no propelling force and their study is passive, they gradually become weary of school and even give up their study.

*Family factors.* Every student lives in a family, and those weary of school are no exception. In analyzing the reasons for school-weariness, of course, we cannot ignore family factors. The most striking family factor is that some parents pin too much hope on the children and demand too much with respect to their study. Quite a number of parents earnestly hope that their children will become outstanding. They equate the bitterness or sweetness of their children's future with what jobs they will hold. These parents hope that now at school their children will get a high score for every course they learn, but pay no attention to their emotional development and tolerance for the pressure of learning. In fact, these parents demand too much of their children, even to the extent that the children cannot psychologically endure. This is tantamount to adding frost to snow and, in many cases, leads to the students' emotional disturbance. Consequently, the students rebel against their parents' hope. They want to get rid of the endless pressure and purposely refuse to study. This has also given rise to school-weariness. [passage omitted]

**Qinghai Official on Ethnic Region Stability**

94CM0316A Beijing GUOFANG /NATIONAL DEFENSE/ in Chinese No 4, 15 Apr 94 pp 4-5

[Article by Chen Yanqin (7115 3601 0530), political commissar of Qinghai Provincial Military District: "Promoting Stability in Ethnic Regions Is a Major National Defense Education Task"]

[Text] Since the party Central Committee issued the call "strengthen national defense education to enhance the people's awareness of the importance of national defense," we have achieved gratifying results in promoting this education in minority-inhabited regions. Judging from the requirements of the objective situation, however, what we have done is still somewhat inadequate in terms of the depth of the education and the efforts we have put into it. In conducting national defense education, some units have often proceeded from a pure military viewpoint and given more attention to the need for preparations against invasion from outside, but ignored or put less stress on safeguarding internal stability. China is a multi-national country with 56 different nationalities. Today when we are accelerating the reform, the opening to the outside world, and the drive for modernization, we need not only a peaceful international environment, but also a united, stable, and harmonious domestic environment. In minority-inhabited regions, it is always an "overriding" task to safeguard national unity, social stability, and the unification of the country. Accordingly, the peacetime national defense education in these regions must also center on this task. In other words, it must aim at the regions' stability as its major goal.

**I. We Must Promote the Stability of Minority-Inhabited Regions as a Major Task of National Defense Education in View of These Regions' Position and Role in National Defense Construction**

First of all, whether from the original or extended meaning of national defense or the concept about national defense, promoting the stability of minority-inhabited regions should be an indispensable part of national defense education. With the increasingly complicated relations between nations and the continuing diversification of the means of maintaining and safeguarding national defense interests, the original and extended meanings of national defense and the concept about national defense have also undergone changes. Today, they no longer have such a narrow meaning as military affairs and views on warfare, but involve many social factors, including politics, economics, diplomacy, and culture, all of which possess a certain weight in national defense. Because of this, the social and political stability of minority-inhabited regions and the proper understanding about this question have naturally become an indispensable integral part of national defense as well as the concept about national defense. Now, the function of national defense is not only to resist invasion by outside enemies so as to provide a peaceful

international environment for our country's socialist construction, but also to safeguard stability in all parts of the country, including minority-inhabited regions, so that there will be a stable and united social order where the people of all nationalities can engage in peaceful labor. Therefore, in strengthening national defense education to enhance the people's awareness of the importance of national defense, we must not only be concerned about war in the future and the questions regarding defense against aggression, but also heighten our sense of responsibility for safeguarding the stability of our minority-inhabited regions.

Secondly, from the viewpoint of military strategy, promoting the stability of minority-inhabited regions is of far-reaching significance to the victory of the war against aggression in the future. Most of the minority people of our country live in compact communities in border regions, which have always been the forward battlefields in resisting foreign aggression. In the present situation marked by extremely complicated international struggle, border clashes, if any, will by and large take place in areas inhabited by minority nationalities. Let us suppose that an anti-aggression war breaks out in the future. Although the front and rear will not have as clear a demarcation line as in the past, the enemy's ground force still have to break through our frontier to launch an invasion, and the minority-inhabited border region will remain to be a forward position to resist such foreign aggression. For this reason, promoting the minority-inhabited regions' social stability and economic development is of great strategic importance to consolidating our national defense, reinforcing our border regions, and winning victory in the war against aggression in the future.

In addition, historical experience shows that whether the regions inhabited by minority nationalities are stable or not amounts to an inexorable factor affecting the consolidation of our national defense and a significant matter concerning the prosperity or decline, honor or disgrace of our country. If a country is to win due respect in an international community characterized by acute competition and power politics, an indispensable requirement is the unity of the people of all nationalities within that country and the stability of its society. In modern history, apart from political corruption and military weakness, the major reasons that China was repeatedly bullied and humiliated by big powers were the disunity of the nation, the separatism pursued by the local forces, and the instability of society. Upheavals and division of some countries in the world have also borne out the fact that when an outside hostile force is trying to subvert a country, it will, more often than not, choose a minority-inhabited region of that country as a breakthrough point. It will first instigate contradictions and disputes between the people of different nationalities and then seek an opportunity to launch an invasion. In China, the people of all nationalities have a fine historical tradition of living in harmony, being united as one, and cooperating

in guarding the frontier and resisting the enemy. Carrying forward this historical tradition to promote the stability of the minority-inhabited regions is a significant measure to consolidate our national defense, safeguard the unification and dignity of our motherland, and ensure the long-term peace and order of the country. Because of this, our party has proposed and established a set of systematic and integrated theories, principles, and policies to deal with the question of nationalities. They are not only the magic weapons to win success in various undertakings, but also the guidelines and indispensable subjects that we should follow and dwell on in conducting national defense education in minority-inhabited regions.

## II. Promoting Minority-Inhabited Regions' Stability as an Important Task of National Defense Education Meets the Immediate Requirement for Economic Construction and Development in These Regions

At present, one of the major tasks of national defense education in minority-inhabited regions is to ensure the effective implementation of the party's basic line of "taking economic construction as the central task." The key to implementing this basic line is to integrate our reform and opening-up drive with the upholding of the four cardinal principles and to consolidate and develop political unity and stability. In view of this, promoting the stability of minority-inhabited regions as an important task of national defense education meets the requirements of adherence to the party's basic line and the economic construction and development of these regions.

Of China's minority-inhabited regions, many are multiple-religion areas. In the case of many minority nationalities, almost all people are religious believers. Guided by the party's policies on nationalities and religions, the people of all nationalities in our country have maintained as close a relationship as brothers and shared weal and woe in their long-term struggle of revolution and construction. Especially since the commencement of the reform and opening-up drive, they have become more united and made positive contributions to the development and prosperity of their respective regions and to the consolidation and promotion of the country's political stability and unity. However, we should be sober-minded and see the fact that, stable as the general situation is, there are still some negative factors affecting unity and stability.

All along, the international hostile force has been taking China's minority-inhabited regions as major breakthrough points. It is stepping up infiltrating and splitting activities against us under the pretence of promoting "pan-nationalism," missionary work, and religious exchange. The exiled Dalai Lama and Aisha cliques as well as domestic separatists are collaborating and chiming in with the international hostile force. Using Tibet and Qinghai and other Tibetan-inhabited regions as well as Xinjiang as major breakthrough areas, they are

taking advantage of the issues concerning nationalities and religions to gear up their infiltrating, rebellion-inciting, and subversive activities.

The questions of religions and nationalities are intricate issues interwoven with each other. Because of our insufficient efforts to conduct constant education about the Marxist viewpoints and the party's policies on nationalities and religions, there are still instances affecting the solidarity of different nationalities. In recent years, articles and pictures violating the nationality and religious policies and hurting the relations between the religious masses of different nationalities have appeared in some books and periodicals within the country. These questions, though quite isolated in nature, can produce very bad effects. They can be easily utilized by the handful of separatists and illegal religious organizations to instigate disputes between different nationalities, jeopardize our national unity, and create a chaotic situation.

The existence of these destabilizing factors has posed a potential threat to both our national security and domestic stability and interfered in the minority-inhabited regions' economic construction. Today, it is more important and urgent than ever to consolidate and develop political unity and stability in minority-inhabited regions. To do so also fulfills a common aspiration and is in the basic interest of the people of all nationalities. It is necessary in order to take the current opportunity to speed up economic development, and it meets the immediate need of promoting national defense education in our minority-inhabited regions. Only by focusing closely on the central task of economic construction while promoting the minority-inhabited regions' stability as an important task of national defense education can we push forward the economic development of ethnic minorities and boost our economic strength in the field of national defense.

## III. To Promote the Stability of Minority-Inhabited Regions as an Important Task of National Defense Education, It Is Imperative To Adhere To the Main Line of Patriotic Education

Patriotism not only finds expression in people's warm love for the magnificent land and age-old culture of the motherland, but more importantly it is manifested by their firm confidence in the motherland and their lofty ideal of dedication to it. Patriotism has a mighty rallying force, centripetal force, and appealing force. It can be accepted by people of different nationalities, religious belief, and political stands. Patriotic education will enhance the nation's centripetal force and the people's cohesion and will help foster the concept that "national defense interests hold the top priority" and that "the entire Chinese people's interests are above all other things." It is a mighty spiritual force that brings about and promotes the stability and development of minority-inhabited regions. For this reason, in conducting national defense education in multi-national areas and promoting the stability of minority-inhabited regions,

we must persist in patriotic education as the main line, focus on promoting national unity as the core work, and pay particular attention to the following tasks:

In the first place, we must conduct an education in breadth and in depth about the Marxist viewpoints and the party's policy on nationalities and religions so as to enhance people's sense of responsibility and obligation for safeguarding national unity, social stability, and the unification of the motherland. This will build up an indestructible mental defense line against infiltration by the international hostile force. National unity is the political foundation for as well as an essential aspect of social stability. We must publicize and implement the Marxist theory and the party's policy on nationalities and lead the people of all nationalities to review the history of the rise and fall of the Chinese nation and its glorious tradition of national unity. We must do this as a way to educate the people to fully grasp the great importance of promoting national unity and to enhance their consciousness of the need to safeguard national unity and oppose national separatism in the interest of the unification of our country, the survival and development of all nationalities, and the happiness and peaceful life of the people. Also, it is imperative to publicize in depth and implement in full the party's religious policy among the vast numbers of cadres and masses. We must educate our cadres and masses to uphold the Marxist religious viewpoint and take the initiative to respect the freedom of religious belief of other people and unite well with them. Meanwhile, we must guide religious believers and public figures in religious circles to integrate their patriotism with their love for the religion. We must make them aware of this truth: "Though religion has no national boundaries, our religious believers belong to the motherland, and if the nation is not stable and prosperous, there can be no freedom of religious belief to speak of. So, to love our religion, we must love our country." Above all, our cadres and masses must be so educated that they will struggle, on their own initiative, against any international hostile force that uses religion to carry out infiltration and subversion.

Second, we must conduct an unremitting education about the party's basic line and its reform and open policy so as to bring forth the people's warm love for the party, the country, and socialism and arouse their enthusiasm to plunge into reform and production. This way we will lay a firm material foundation for economic invigoration and social stability in minority-inhabited regions. Since minority-inhabited regions are relatively backward in developing the economy and are in a rather poor state compared with developed areas in the interior, the directly perceived difference in material interests can affect the people's unity and centripetal force. Therefore, developing the minority-inhabited regions' economy is key to maintaining their long-term stability. This makes it necessary to link national defense education closely to economic construction in minority-inhabited regions. It is imperative to educate cadres and

masses to highly value and safeguard the current situation of political stability and unity. They should be urged to seize this fine opportunity to devote all their strength and spirit to economic construction and contribute their share to the economic prosperity and overall affluence of people of all nationalities.

Third, we must firmly carry out an education about our glorious tradition of army-government and army-people unity and make people deeply aware of the army's important position and role in safeguarding national unity and social stability in minority-inhabited regions. We must see to it that, through the consolidation and development of army-government and army-people unity, a reliable guarantee is provided for the stability of minority-inhabited regions. In these regions, the army's relations with the government and the people are often and mostly relations between different nationalities. The army has a heavy responsibility for safeguarding, consolidating, and developing national unity, a matter of overall interests. In national defense education, it is imperative to organize the people of all nationalities to study the party's policies on nationalities and religions and learn the history and culture of the people of various nationalities as well as their glorious deeds in struggling in unison to develop and build the frontiers. In addition, we must guide them to become models for safeguarding national unity. This will help solve properly disputes between the army and people and between the people of different nationalities. It will also help eliminate in a timely manner the negative factors affecting army-government and army-people unity and the solidarity of all nationalities. We must promote army-people cooperative construction projects, develop the "double support" campaigns [campaign to support the army and give preferential treatment to families of revolutionary armymen and martyrs and campaign to support the army and cherish the people], and help the masses of all nationalities to do away with superstition, emancipate their minds, develop production, get rid of poverty, and become better off as soon as possible so that they will lead a socialist new life, one that is healthy, civilized, and affluent. This way we will bring about a sound practice in society where the army cherishes the people, the people support the army, and they are as united as dear members of the same family.

#### Article Reviews Book on Defense Conversion

94CM0329A Beijing JIDIAN RIBAO in Chinese  
4 Jun 94 p 1

[Article by He Delong (6320 1795 7893): "After Reading China's Defense Conversion: The Second Wave of China's Military Industrial Complex"]

[Text] *China's Defense Conversion* was recently published by the China Economics Publishing House (edited by Cao Shixin [2580 0013 2450], Yu Zonglin [0060 1350 2651], Chen Dedi [7115 1795 4574] and Bao Qubing [7637 0637 4016]). Readers can learn a great deal from

this book which describes the status of China's defense conversion and how it evolved from the late seventies to the present.

Today, peace and development have become major world trends. It is precisely in such an historic context that many nations are rapidly converting military industries to producing civilian goods, and waves of defense conversions are sweeping the world. China's defense conversion is particularly notable among the nations engaged in this effort. For China not only took the lead to downsize its armed forces by a million men, it also began the defense conversion process in the late seventies, several years ahead of other nations in this regard. This book *China's Defense Conversion* summarizes this historic process from both a theoretical and a practical standpoint.

Military industries follow their own logical rules in production and development. This book describes scientifically and in depth how the theory of "integrating the military and the people, peace and war" (hereinafter referred to as two integrations) relates to the pattern of development of military industries. Faced with nearly 100 years of historical reality of this century in which mankind has experienced two world wars and close to a hundred regional or local wars, almost all major economic and military powers have consciously or otherwise developed their military industries on the basis of the "two integrations" model. After a major war, these countries all proceeded with major conversion of military industries into civilian uses, but at the eve of war or in the early stages of war, they all mobilized their civilian economies and turned civilian industries into military uses. This book follows up [on this trend] by probing for the truth at a deeper level: Military industries develop on the basis of the "two integrations" model because they must meet the requirements for war and at the same time conform with the laws of economics. This point should be well understood, for China has indeed paid a heavy price [meeting the requirements for war] but we can, by a firm grasp of these two laws, also gain great achievements.

Comrade Deng Xiaoping, showing his great foresight by taking a broad and long-term view, recommended as early as 1978 that military industries must turn to producing civilian goods and, early in 1982, called upon China's military industrial complex to follow the above-mentioned "two integrations" line, "giving priority to military needs with the people nurturing the military." This was a clarion call which gave a major impetus to China's military conversion to civilian production during the eighties. As this book points out, this was a major leap forward in terms of economic theory for China's military industrial complex, and provided the theoretical foundation on which China's defense conversion made its major achievements.

During the 1980s, China's defense conversion proceeded along side with China's reform and opening to the

outside. In the process of transformation from a planned economy to a market economy, the people gradually gained practical and basic experiences of defense conversion. The conceptual and theoretical breakthroughs necessarily led to changes in policies and actions, while new policies and actions inevitably resulted in greater forward momentum. Therein lies the crux for the success of China's defense conversion.

In the 30 years from 1950 to 1979, China built up its military industrial complex under very difficult conditions. By the mid-sixties, China's nuclear and space industries began to take off, and ultimately led to China being ranked fifth in the world in terms of the power of its nuclear weapons and capability of its long-range ballistic missiles. In addition, the military's aviation, electronics, weapons and ship-building industries all made gains. These represented the first wave of [growth in] China's military industrial complex. Because defense conversion in the 1980s proceeded under difficult circumstances and achieved success only through great efforts of the masses of soldiers and workers, people have appropriately called this defense conversion the second wave in China's military industrial complex. *China's Defense Conversion* records the many great achievements made in defense conversion which serve the interests of the national economy. Construction of nuclear power stations, launching various types of satellites, manufacturing civilian passenger aircraft, building large vessels and so forth are all examples of enterprises and products with dual military-civilian usage or civilian application. In addition, military industries have produced large quantities of civilian goods. This book informs the readers that at present, the largest enterprise producing color TV sets is a military enterprise, so is the largest motorcycle factory; close to 10 percent of the nation's automobile production is by the military, and even the "3-9 stomach sedative" is a military enterprise product. Even more significant are research and development in many high tech products, including many which China does not or cannot produce. This book further provides an overviews of nine military enterprises undergoing conversion to civilian uses. Some of these enterprises are China's largest producers of certain civilian products, others produce goods which previously were imported by China, and still others produce goods which have successfully penetrated the international market. And these nine enterprises represent only a part of the defense conversion effort.

This book also describes the defense conversion achievements in the area of mechanical engineering and machinery production. Civilian products account for 80 to 90 percent of the total value of production of the specialized military machinery industry. Military industries also produce many important spare parts for China's major factories and plants, spare parts which domestic [civilian] industries do not or cannot produce. For example, many important spare parts for the Beijing Chengfu Electronic Collider Engineering project and the

Taishan Nuclear Power Station are produced by the military machinery industry.

*China's Defense Conversion* has reference value not only for understanding this topic today but also as a guide to any future defense conversion efforts. One is both informed and inspired after reading the book cover to cover. In the context of the brilliant defense conversion achievements made during the past tumultuous 10 some years, one tends to feel that the book should perhaps go even further to report other successes, but this perhaps is an insatiable or unreasonable demand on my part.

#### Deputy CGS Cao Gangchuan Comments on Reserves Training

94CM0327A Beijing ZHONGGUO MINBING [CHINESE MILITIA] in Chinese No 3, 9 Mar 94 pp 3-4

[Article by Deputy Chief of the General Staff Cao Gangchuan (2580 0474 1557) entitled: "Strengthening Militia Military Training Reform To Raise the Quality of Reserve Personnel"]

[Text] In accordance with the requirements of the Central Military Commission's new period military strategic plan, in order to progressively strengthen the military training of militia and reserve duty units and increase the quality of our reserve forces, last year the General Staff Headquarters organized in a unified manner activity involving the selection of militia and reserve duty forces outstanding "four know-hows" instructors. Military region and people's armed forces departments at all levels are paying particular attention to this activity, and members of the leadership take personal responsibility, and do a large amount of highly effective work, enabling the selection process to develop smoothly and in a healthy manner. Not only are the outstanding "four know-hows" instructors chosen through this type of selection process, but in addition, models are established, and the enthusiasm of large numbers of militia members and reserve duty force military instructors is aroused, promoting the development of the instructors, and achieving the anticipated goals.

This time, throughout the country, some 301 militia outstanding "four know-hows" instructors were chosen, and in the military as a whole 49 reserve duty outstanding "four know-hows" instructors were selected, a total of 350 people. These comrades have been engaged for many years in militia and reserve duty force military training and teaching work, and they regard the cause of the Party's people's armed forces as their own, carrying forward and developing the good traditions of the old Red Army, quietly immersing themselves in hard work, not counting on fame and wealth, studying the tasks assiduously, and in the process of teaching and studying, both teaching military skills and tactics, but also stressing properly handling political thinking, and conducting teaching for the people. In teaching with tireless zeal, they have made a positive contribution to the

strengthening of the development of the militia and reserve duty forces, and the improvement of the quality of our reserve troops. Our people's armed forces cadres at all levels and comrades engaged in militia and reserve duty unit training teaching work must study them, taking the outstanding "four know-hows" instructors as models, with a spirit involving a high degree of dedication and a desire to try and genuinely engage in concrete matters of work, going deep into the realities of life, working diligently, and in carrying out each task, working hard to create a first-rate success.

At the present time, the world finds itself in a transition period where new and old structures are changing, and relaxation and cooperation have become the common demand of the people of various countries. Looking at the world situation in general, it is beneficial to China's reform and opening and socialist modernization. The domestic situation in China is also very good, and Party Chairman Jiang Zemin has summed up the situation in four phrases at the Third Plenary Session of the 14th Central Committee: the economic is developing, the political situation is stable, the nationalities are united, and the society is moving forward. But some unstable factors exist both in the international situation and in the domestic situation, and it should be stated that they are things for China to worry about. All who are engaged in military work must get a clear understanding of the situation, be prepared for danger in times of peace, always bearing in mind the basic functions of the people's armed forces, and maintaining a high degree of vigilance. We cannot have the slightest amount of non-vigilant thinking. China is now accelerating the pace of reform, and focusing efforts on promoting economic development. This requires a peaceful and stable environment. We must maintain this type of environment, and must have a strong national defense to act as a guarantor. The development of the reserve forces is a major component part of the development of national defense, and it is one aspect of an integrated national defense capability. At the same time as we strengthen the development of our military forces, we must pay attention to strengthening the development of the reserve forces. Safeguarding the security of the fatherland, safeguarding the development of socialist modernization, and safeguarding the people's ability to labor in peace, constitute the historical mission that the party and people have bestowed on the armed forces. We must through a high degree of dedication and sense of responsibility properly carry out militia and reserve duty work in a down-to-earth manner, work hard to strengthen our reserve forces, and not fail in the historic mission that the party and people have bestowed on us.

1) The strategic issue of strengthening the reserve forces. The Party Central Committee, and the Central Military Commission have constantly paid great attention to developing the national defense reserve forces. Comrade Mao Zedong made a series of important pronouncements on the issue of the development of China's militia. He pointed out that "the people's militia is the foundation

of victory," and "militia work must be carried through organizationally, politically, and militarily." Comrade Deng Xiaoping notes that: "We have a 'three-in-one'" armed forces system, with field armies, regional (local) troops, and the militia in combination waging war, and this is a people's war. The militia then must be raised to a strategic position." The CMC Chairman Jiang Zemin stresses that "at the same time as we strengthen the military forces, we must pay attention to the development of the reserve forces, we must carry forward the fine tradition of party control of the armed forces, and work hard to develop a powerful militia reserve duty force." CMC Deputy Chairmen Liu and Zhang have made a number of important pronouncements on the development of the reserve forces. The instructions of old generation Communist revolutionaries, the party Central Committee, and senior officers of the CMC, not only affirm the position and role of the reserve forces, but also point the way for the development of the reserve forces, and we certainly must conscientiously study them and unwaveringly carry them out.

2) Strengthening reserve force building is a requirement for properly preparing for a future military conflict. Everyone knows that a people's war is to our advantage, and is a magic weapon for defeating the enemy. In the wake of the widespread employment of high technology in military affairs, we must work hard to increase our level of modern technology, particularly our capability to use high technology to conduct combat operations. In the future no matter how warfare has changed, in talking about China's national character, it will still not deviate from a people's war, and will still involve bringing into play the total power of the "three-in-one" armed forces. The militia, and the reserve duty units are a component part of the "three-in-one" armed forces, and are an important force in waging a people's war. In modern warfare, the position of the militia and reserve duty forces is not reduced, rather it is raised, and the role of the reserve duty forces is hardly "immaterial," but rather their mission is even more important, and the demands on them even higher. Looking at some of the recent wars that have occurred, particularly the Gulf war, the role of the reserve forces cannot be overlooked. The more modern the warfare, the more important the replenishment and support role of the reserve forces. In particular, when it comes to the numbers, and quality of troops mobilized, and the speed with which they are mobilized, even higher demands placed on all these factors. A national defense without reserve forces is not a complete and consolidated national defense, and an army without reserve forces is not a genuinely strong army. Our cadres at various levels and large numbers of militia reserve duty troops engaged in reserve forces development certainly must recognize the heavy responsibility that they bear, and must have their feet firmly planted on the ground, and work hard, in order to make their own contribution to the development of a strong reserve force with Chinese characteristics.

3) In strengthening the building of the reserve forces, the central question is working hard to raise the quality of reserve force soldiers. China has a large population, with ample manpower resources, and the issue of numbers does not arise, hence the key is the need to raise the quality of reserve force soldiers. Looking at the situation as a whole, at present, militia, and reserve duty force military quality is still not sufficiently high, and also cannot adapt to modern technology, particularly to the demands of high technological combat. It is necessary to change this situation, increasing the military quality of our military reserve force troops, and the fundamental path is the need to strengthen military training. For this reason, military region and armed forces departments at all levels, in accordance with the requirements of the CMC and the General Staff Headquarters, must elevate military training to the core position, and conscientiously strengthen leadership, take vigorous measures, work hard to increase training quality, and adapt China's military reserve force development to the demands of modern warfare, particularly warfare carried out under high technological conditions. We need to achieve this goal, and to do this we must carry out reform of the military training given to militia and reserve duty forces. It should be noted that over the past several decades, a substantial amount of experience has been accumulated in the training of China's reserve forces, particularly during periods of war, and our militia, during operations against the enemy created some very effective and courageous approaches showing their military prowess. For example, land mine warfare, tunnel warfare, sabotage operations, sparrow warfare, etc. But the present circumstances have changed: first, China's reform and opening and socialist modernization has provided the militia and reserve duty forces with life and energy, and established an excellent material foundation, creating excellent conditions, while at the same time, some new circumstances and new issues have emerged. Second, in the wake of the development of science and technology, the weaponry of the armed forces has been continuously replaced, and the use of high technology in warfare has caused changes in the types and stages of combat operations. These circumstances have put forward new and ever higher demands on the development of our reserve forces. This requires us to carry out the necessary reform of the military training given to our militia and reserve duty forces in accordance with the new circumstances. For example, this includes how to decide on training missions, training topics, training time and contents, how to improve training methods and approaches, etc. We must all conscientiously research and probe into these questions. The core question of reform is the need to increase the quality of the reserve forces personnel, and conscientiously probe into wartime and peacetime training methods for militia and reserve duty forces under modern conditions, particular under high technology warfare situations, in order to genuinely accomplish consistency in training, one training set, one standard, one reserve. At the same time, in the course of training reform, we must also pay attention to lightening the

burden of the masses, benefiting the development of production, and promoting local economies. Recently, CMC Deputy Chairman Zhang pointed out that "development of the reserve forces, in addition to the support of national funds, must exert great effort to lighten the burden of the masses, and make the militia and reserve duty forces become the backbone for economic construction and a force for upholding the socialist system. We must walk the road of using labor to provide weapons, and train the reserve forces, while also advancing economic development, and be able to increase the coalescing capability of the people, while increasing their fighting capacity." This declaration by Deputy Chairman Zhang is very important, and we must conscientiously carry it out. In properly handling the reform of military training for the militia and reserve duty forces, first it is necessary to concentrate on the missions that the militia and reserve duty forces will have to shoulder in future military combat, and in accordance with the real situation of the characteristics and weaponry of the militia and reserve duty forces, to be able to fight any battle, and train any soldier, and continuously increase the fighting ability of the militia and reserve duty forces; second, we must adopt an overall point of view, be subordinated to the country's economic development situation as a whole, and pay attention to balancing the burden, taking into consideration the immediate vital interests of the militia and reserve duty personnel, giving full play to their function in the socialist material civilization and spiritual civilization, and strengthening the coalescing power of the militia and reserve duty forces.

4) In enhancing the development of the reserve forces, the key lies in leadership. The CMC early on resolved that the most important mission of the provincial military regions is the conduct of militia and reserve duty-related work. The content of this work is multitudinous in nature, and I see as primary the proper grasping of

military training. This must be clear and definite. For this reason, the primary leadership of each provincial military region, military subarea and people's armed forces department must devote its primary energy to mastering military training. At present there is one trend worth noting. Some in leadership do not devote their primary energy to mastering this work, and are instead hurrying off to entertain themselves; their work is not thorough, and not down-to-earth, while on many matters they are not at all familiar with the issues and do not grasp the key points. Some are devoting their primary energy to grasping management of production. Most recently, Chairman Jiang Zemin again stressed his "hope that everyone will be able to try and find time to study, and less time to seek entertainment; that more will do investigative research, and fewer engage in subjectivism; that more will work from the facts, and fewer will speak empty words." We must conscientiously study and resolutely carry out the instructions of Chairman Jiang, and devote great effort to changing leadership styles and work styles. For the primary leadership of provincial military regions, military subareas, and people's armed forces departments to master military training, they must penetrate into the real work of military training, and personally direct, examine and approve training programs, penetrate into training site guidance work, and the principle goal must be personal giving of instructions, and personal organization of the offices of the relevant departments to research solutions. In arranging organizational forces and guaranteeing material outlays, it is first necessary to consider the requirements of military training, and conscientiously and properly handle the guaranteeing of training, and in accordance with political standards, military mastery, an excellent work style, and strict and impartial discipline, to ensure the achievement of the vigorous overall requirements and preserve quality and quantity in completing the training missions handed down by the CMC and general headquarters.

**Foreign Funding Drops as Mainland Investment Increases**

94CE0546B Hong Kong CHING-CHI TAO-PAO /ECONOMIC REPORTER/ in Chinese No 20, 23 May 94 pp 32-33

[Article by Wang Mu-heng (3076 1970 1854): "Foreign Investment Slumps As Taiwan Boosts Investment in Mainland"]

**[Text] Steady Decline in Foreign Investment in Taiwan**

Foreign investment declined for the fourth year in a row. According to statistics released by the Investment Commission under the Ministry of Economic Affairs [MOEA], foreign investment (that is, approved foreign investment, including investment by overseas Chinese) in 1993 (January through June) amounted to \$428 million, down 23.8 percent from the corresponding period in 1992, the fourth annual decline in a row.

Foreign investment in Taiwan stood at \$2,302,000,000 in 1990, a drop of 4.8 percent from 1989 (\$2,418,000,000); \$1,778,000,000 in 1991, down 22.7 percent from 1990; and \$1,461,000,000 in 1992, down 17.8 percent from 1991.

These are the reasons for the steady decline in foreign investment in Taiwan in recent years: 1) Deteriorating investment climate (labor shortages, soaring wages, serious environmental pollution). The comparative cost advantage historically enjoyed by labor-intensive industries has diminished; 2) The investment climate for developing those industries using cutting-edge technologies has not yet fully taken shape; and 3) Japan and the United States, the principal source of foreign investment in Taiwan, have been plagued by recession at home.

Japanese and American investment in Taiwan has declined. Investment by Japan and the United States, traditionally the principal investors in Taiwan, continued to slip in 1992 and 1993. Japanese investment in Taiwan amounted to \$418 million in 1992, dropping 20.6 percent from 1981 [as published] (\$526 million) and \$76 million in 1993 (January-June), off 60.2 percent from the same period in 1992. The United States invested \$184 million in Taiwan in 1992, down 68.7 percent from 1991 (\$588 million), and \$65 million in 1993 (January-June), down 24.2 percent from the same period in 1992.

Japan was consistently the top investor in Taiwan between 1988 and 1990, slipped to the second spot behind the United States in 1991, and regained its No 1 ranking in 1992 when U.S. investment in Taiwan plunged, a position it managed to hold onto in the first half of 1993.

Foreign investment in Taiwan's manufacturing sector tumbled in 1992, falling 40.2 percent (from

\$1,242,000,000 to \$743 million). Foreign investment in industries that used to attract the majority of foreign investment dollars such as the electronic, electrical machinery, chemical, and machine tool industries all fell sharply. In contrast, foreign investment in the non-manufacturing sector rose a strong 33.9 percent (from \$537 million to \$719 million) compared with 1991, boosting the share of foreign investment that went to the non-manufacturing sector from 30.2 percent in 1991 to 49.2 percent in 1992.

In 1993 (January-June) not only did foreign investment decline in the manufacturing sector, but it fell 46.9 percent in the non-manufacturing sector as well, with investment in industries like trade, finance, insurance, and services all taking a tumble. This was caused by: 1) Japan, traditionally the principal investor in Taiwan's non-manufacturing sector, has had to deal with an economic recession and fund shortages at home, thus cutting back on investment in Taiwan; 2) Taiwan has begun to scrutinize investment applications from Japan in the non-manufacturing sector more stringently.

**Changes in Foreign Investment Direction**

Taiwan's foreign investment fell precipitously in 1992 and rose slightly in the first half of 1993. According to statistics released by the MOEA Investment Commission, Taiwan's direct foreign investment (excluding investment in the mainland, which is counted separately by the commission) amounted to \$887 million in 1992, down a steep 46.4 percent from the \$1,656,000,000 in 1991. Taiwan's foreign investment in 1993 (January-June) was \$566 million, up a minuscule 2.8 percent from the same period a year ago.

After investing heavily overseas in the late 1980's, Taiwan investors have been slowing their activity since 1990. In contrast, its investment in the mainland has been up sharply during the same period.

Taiwan investment in ASEAN member nations, the principal destinations of its investments in the late 1980's, fell by a wide margin in 1992. Its investment in Malaysia was \$158 million, down 64.8 percent from 1991; \$40 million in Indonesia, down 75.1 percent; \$9 million in Singapore, down 29.6 percent; and \$83 million in Thailand, down 36 percent. In contrast, investment in mainland China reached \$247 million (according to figures compiled by the MOEA Investment Commission), up 41.8 percent from 1992 [as published].

Investment in ASEAN continued to drop steadily in the first half of 1993. Investment in Malaysia amounted to \$42 million, down 58.6 percent from the same period in 1992; \$12 million in Indonesia (down 53.1 percent); and \$19 million in Thailand, down 38.9 percent. Meanwhile, however, investment in the mainland soared to \$667 million (a 7.7-fold gain).

Table 1. Foreign Investment in Taiwan: Nation/Region Of Origin (in millions of dollars; %)

Source of Investment: Nation/Region	1980		1990		1991		1992		1993(January-June)	
	Amount of invest- ment	Amount of invest- ment	change (%)	Amount of invest- ment	change(%)	Amount of invest- ment	change(%)	Amount of invest- ment	change(%)	
Japan	640.5	826.8	29.1	526.2	-36.4	417.8	-20.6	76.3	-60.2	
United States	343.0	540.4	57.6	587.7	8.8	183.8	-68.7	64.8	-24.2	
Europe	531.4	348.4	-34.4	221.7	-36.3	203.8	-8.1	91.0	-41.0	
Hong Kong	176.4	188.8	7.0	101.2	-46.4	161.8	59.0	46.9	-34.4	
Overseas Chinese*	177.3	220.1	24.1	219.5	-0.3	312.1	42.2	53.7	-14.6	
Others	549.6	177.3	-67.7	122.2	-31.1	182.1	49.0	96.4	10.7	
Total	2418.2	2301.8	-4.8	1778.5	-22.7	1461.4	-17.8	428.1	-23.8	

Note: \* Overseas Chinese investing in a personal capacity. Source: TUNG-CHI YUE-PAO, Investment Commission, MOEA

Taiwan's foreign investment lost steam in 1992 and the first half of 1993 because: 1) The global economic recession dampened the enthusiasm of Taiwan firms for investing overseas; and 2) Instead of investing mainly in ASEAN, Taiwan has now made China the principal destination of its investment dollars.

Investment in mainland China has increased sharply. In October 1990 the Taiwan authorities issued regulations allowing Taiwan enterprises to invest indirectly in the mainland through a third region but also requiring any enterprise interested in investing in the mainland to apply for official permission. As of late 1991, \$174 million had been invested in the mainland

by Taiwan enterprises with the approval of the Taiwan authorities. The bulk of the investment went to the manufacturing sector (\$168 million, or 96.7 percent), specifically to such industries as plastics, rubber, electronics, electrical machinery, and food. (According to figures made public by the mainland, however, direct Taiwan investment in the mainland stood at \$1,388,000,000 yuan, significantly different from the number released by the MOEA Investment Commission. The discrepancy can be explained by the fact that many Taiwan enterprises invest in the mainland without first securing authorization from the Taiwan government.)

Table 2. Taiwan's Overseas Investment (in millions of dollars; %)

Recipient of Invest- ment:Nation/Region	1989		1990		1991		1992		1993(January-June)	
	Amount of invest- ment	Amount of invest- ment	change(%)	Amount of invest- ment	change(%)	Amount of invest- ment	change (%)	Amount of invest- ment	change(%)	
United States	508.7	428.7	-15.7	297.8	-30.5	193.0	-35.2	321.4	136.1	
Malaysia	158.4	184.9	16.7	442.0	139.1	155.7	-64.8	42.2	-58.6	
Thailand	51.6	149.4	189.5	86.4	-42.1	83.3	-3.6	19.2	-38.9	
Indonesia	0.3	61.9	206.33	160.3	159.2	39.9	-75.1	12.2	-53.1	
Indonesia	0.3	61.9	206.33	160.3	159.2	39.9	-75.1	12.2	-53.1	
Singapore	3.2	47.6	915.4	12.5	-	8.8	-29.6	16.5	8.7-fold	
Hong Kong	10.4	33.1	37.83	199.6	503.3	54.4	-72.7	41.0	231.1	
Others	206.5	646.7	313.2	457.4	-10.4	352.2	-23.0	113.9	-47.6	
Total	931.0	1552.2	166.7	1656.0	6.7	887.3	-46.4	566.4	2.8	
Mainland China(1)	-	-	-	174.0	-	247.0	41.8	666.9	7.7-fold	
Mainland China(2)	-	-	-	1388.5	56.0	1050.5	-24.3	undisclosed investment prior to 1990 but retroactively approved.		

(2)Actual investment figures published by the economic cooperation department of the Ministry of Foreign Economic Relation and Trade on the mainland.

According to figures released by the MOEA Investment Commission, "approved" Taiwan investment in the mainland totaled \$247 million in 1992, up 41.8 percent from the \$174 million in 1991. Of this amount, the manufacturing sector accounted for \$231 million (or 93.6 percent), with industries like plastics, rubber, food, electronics, and electrical machinery absorbing most of the investments. Actually Taiwan firms have also been investing heavily in other manufacturing industries as well as the tertiary sector (primarily services) without the approval of the Taiwan government. In terms of regional distribution, the Shenzhen special economic zone accounted for 16.6 percent; Guangdong, 10 percent; and Xiamen special economic zone; 8.2 percent. While most Taiwan investors are drawn to the southern coastal region, the areas around Shanghai are also attracting more and more Taiwan money every day.

Investment by Taiwan enterprises in the mainland amounted to \$667 million (MOEA Investment Commission figure) in 1993 (January through June), a gain of 7.7-fold from the same period in 1992.

#### Taiwan Enterprises' Mainland Investment Strategy

Since October 1992 a string of measures has been adopted by the Taiwan government allowing Taiwan enterprises to invest in 15 fields in the services sector on the mainland, including retail, trade, restaurant, advertising, transportation, and publishing. This represented a break with the past when Taiwan firms could invest in only some approved fields in the manufacturing sector.

In March 1993 the Taiwan government promulgated the so-called "Regulations for Investment in and Technological Cooperation with the Mainland." Under the regulations, there are three categories of fields as far as investment in the mainland by Taiwan is concerned: fields where investment is prohibited; fields where investment is allowed, and fields where investment is allowed after review on a case-by-case basis. As a result of the regulations, the first batch of fields added to those already approved for investment includes 14 in the services sector and 130 in agriculture.

**Kaohsiung City Council Speaker on North-South Disparity**

94CM0320A *Taipei HSIN HSIN WEN [THE JOURNALIST]* in Chinese No 374, 14 May 94  
pp 61-62, 64-65

[Article by Yang Ho-lun (2799 0735 0243) and T'an Shu-chen (6223 3219 3791): "Special Interview With Ch'en T'ien-mao on Problem of North-South Disparity: I Never Wanted To Move the Headquarters to Taipei"]

[Excerpt] [Passage omitted] Ch'en T'ien-mao [7115 1131 6931], who is not interested in politics but who has, seemingly without end, been the speaker of the Kaohsiung City Council, recently became the only one of the many people with the title of vice chairman of the board of Taiwan Cement Ltd. to become a figure of the most popular topic of conversation in the north and south enterprise circles. [passage omitted]

Below is a summary of our interview with Ch'en T'ien-mao:

Question: Over the past several years it seems that there has been fairly much talk about the north-south issue. In the final analysis, how did the disparity, both in politics and in enterprise operation, come about?

Answer: I think about the north-south disparity! You people in the north have no feelings; what you have in mind is just this: Taipei is the capital! So you have no feelings!

In addition, very few of you Taipei people come to Kaohsiung, but many Kaohsiung people go to Taipei. Every time the Kaohsiung people return from Taipei they feel that the disparity is becoming wider.

Previously there was feeling but there was no freedom of speech, so people did not dare express their feeling! Now Taiwan has already changed into a free, democratic society; comparatively speaking, people dare to say what is in their minds and dare to make demands.

I feel that it is quite odd for us in the south to talk about this north-south disparity; I think it should be correct for the Taipei people to talk about it instead of the Kaohsiung people. You can see that in the course of the development of Taipei, the capital, many problems of a capital have already reached the saturation point, i.e., traffic, environmental quality, expensive housing, high prices, etc. Life in Taipei is both expensive and rotten, so it should be correct for the people of the north to talk about this north-south disparity.

The people of the north should shout "Go to the south, go to the south!" The government should also do some balancing by paying more attention to the south's construction.

Question: Fairly few people of the south hold government posts at the center. Is there a connection here?

Answer: I think this is connected with the fact that the central government is in Taipei; everybody is in Taipei! Kaohsiung is a local county seat, and local officials are way below par.

Question: Why can't high-ranking officials be found in the south?

Answer: That's not so! The high-ranking officials are people from other provinces! Where are the high-ranking officials from this province? How many high-ranking officials are from this province? All high-ranking officials are people from other provinces! Also, they are concentrated in Taipei.

If people from other provinces stayed in Kaohsiung a little longer, could they perhaps change? But after these people from other provinces end their careers as officials, they run back to Taipei!

Also, the so-called high-ranking officials are tools of factions, and government factions do not dare to speak out! They were not popularly elected. I was popularly elected, and naturally I expect to speak out as I please.

Question: It is my understanding that, when Chiang Ching-kuo was president, quite a lot of attention was paid to the Ch'en family of Kaohsiung. What do you feel is the difference between the situation in the Chiang Ching-kuo era and the situation at present?

Answer: Chiang Ching-kuo paid a great deal of attention to the localities. However, in the Standing Committee of the [KMT] Central Committee at that time, speaking frankly, there was no one who would speak out. That was the atmosphere at that time!

Question: Have you thought of making Kaohsiung's strength conform to the demand for the center to narrow the north-south disparity, even making the north and the south compete with each other?

Answer: I feel that I do not have this strength, and I do not have the moral standing to be an official! I do not have this strength. This mainly depends on the government. Provided the central government divides up several organizations, like important ministries and commissions such as the Ministry of Economic Affairs and Ministry of Finance, and moves them to Kaohsiung or sets up branches of them there, the enterprises remaining in Kaohsiung will benefit.

As a member of the Legislative Yuan, Ch'en Chien-ping's [7115 1696 1627] first demand was that the central government divide up some organizations into branches in Kaohsiung, letting enterprises in Kaohsiung handle their own affairs. In this way it will be fairly easy for enterprises to sink roots in Kaohsiung.

Question: Do the Ch'en enterprises have any intent to go to Taipei for development? Or plan to do so?

Answer: No, no. My enterprises give priority to Kaohsiung, and my television station is also in Kaohsiung.

Although they are of an all-province nature, the head company is in Kaohsiung; my bank is also in Kaohsiung, and branch companies have been set up in Taipei.

I never wanted to move my headquarters to Taipei. I feel that my car runs "very straightforwardly" in Kaohsiung. Every time I go to Taipei on business or to open a meeting of the Standing Committee of the [KMT] Central Committee, when I return to my home in Kaohsiung I have the feeling "I have returned, I have returned, it is good to return!"

I also have a home in Taipei, but I never feel when I go to it that I am truly returning to my own home, as I do when I return to my home in Kaohsiung.

Question: On the issue of the two sides of the strait, does it seem that there is also a very big difference in the views of the peoples in the north and south regions?

Answer: In the south fairly many people live on the land, so the people of Kaohsiung, comparatively speaking, have a psychology of loving their native place. Also, the people of the south are fairly conservative. With regard to the relations between the mainland and the other side of the strait, they want to proceed one step at a time, and do not want to rush the process.

Question: If you become chairman of the board of the Strait Exchange Foundation, what will you do?

Answer: I won't do anything. I can't attend to my own affairs; how can I take care of things concerning the two sides of the strait? I feel that the relations between the sides of the strait are too complex for me.

Question: Do you feel that there is a difference between north and south on foreign policy?

Answer: Foreign policy! I feel that this is a matter of character. Don't you feel that the people of the south are comparatively conservative? If the concepts of thought are considered, the practice will naturally follow them in being conservative.

The conservatism of the people of Kaohsiung, both in engaging in a cause and in earning a living, is that what is good for life is good. They are not overly ambitious, they have little heart for scheming, and they are easily satisfied.

However, the new generation of elites in Kaohsiung are comparatively "active points," and it is possible that their way of thinking is no different from that of the people of Taipei. [passage omitted]

#### Foreign Minister Chien Interviewed on Diplomatic Strategy

94CM0348A Hong Kong KUANG-CHIAO CHING /WIDE ANGLE/ in Chinese No 261, 16 Jun 94 pp 54-58

[Article by Ko Shuo-jan (5514 2592 3544): "Taiwan's Current Diplomatic Strategy—Interview with Taiwan Foreign Minister' Chien Fu"]

[Text] [Excerpts] [passage omitted]

Reporter: May I ask, does Taiwan have different foreign policies toward large and small countries?

Chien Fu: In this respect, I think that, like any country, the main point of emphasis in our developing relations is to look for mutual benefits. If they are there, we will develop them as much as possible. For example, look at Singapore. It is a very small place and its population is not more than a few million, but we regard Singapore very highly.—We do not have diplomatic relations, but we regard them extremely highly and often have dealings with them. Our cooperative relations are extremely close, because it is of mutual benefit to both of us. Another point, when we talk about developing new diplomatic relations, there is no difference between large and small nations. Naturally, ideally we would really like to develop diplomatic relations with large countries such as the United States, Japan, and European countries, but currently these large countries do not have too active an interest in this issue. So, we are left with the possibility of developing foreign relations and establishing new diplomatic relations limited to third world countries, especially in the Pacific region, Latin America, the Caribbean region, and the African region. Certainly these regions have somewhat larger and somewhat smaller countries. And we generally hope to develop relations with countries that are a little larger and have a little more population, a little larger territory, and a little more abundant natural resources. Because, as it is also very clear to you, today internationally the most important force for the "Republic of China" is the economic aspect. When we establish relations with someone, we hope that they will be somewhat helpful to our economy. If the other party has a large land area, a large population, and abundant natural resources, our future economic cooperation will be comparatively easy. On the other hand, if they do not have any land, their population is very small, and they do not have natural resources, after establishing relations, we will have to one-sidedly give them assistance. They will very seldom be able to be of assistance to us. So, in the past when our "Republic of China" politics still did not have the oversight of public opinion, we could do this. Now we are totally subject to public opinion, including the media and the National Assembly. They must conscientiously oversee every government measure. They can say that the taxpayers' money does not come very easily, you should use it most effectively. This is now the most important principle for us when dealing with the issues that you just brought up. [passage omitted]

Reporter: I am thinking about asking you about an issue. This morning I interviewed Su Ch'i [5685 6386] of the "Mainland Affairs Council (MAC)"

Chien Fu: Oh, Vice Chairman Su!

Reporter: He very frankly told me that a great many small countries have wanted to establish relations and develop relations with Taiwan, but Taiwan has refused...

Ch'ien Fu: Eh...

**boldReporter:** He said that it is because Taiwan believes that maintaining present numbers is sufficient. I was somewhat startled to hear this...

Ch'ien Fu: Right!

**Reporter:** Because I did not think that there was any country or territory in the world with this kind of foreign policy...

Ch'ien Fu: Right, right, right!

**Reporter:** May I ask, is this Taiwan's foreign policy? [passage omitted]

Ch'ien Fu: If you will permit me to give a little bit of clarification, Vice Chairman Su was a professor. He recently entered government work, no more than two or three months ago. I think that some of what he said is true. He brought up that in the past a considerable number of countries contacted us and hoped to establish relations, all while I have been foreign minister. Why did I not do it? I had two basic considerations: The first consideration is what I just talked to you about, we must be supervised by public opinion. Four years ago when I became foreign minister, at first our media and public opinion once or twice attacked the government for engaging in "money diplomacy" or even accused us of "paid diplomacy." They said that we essentially did not count the taxpayers' money as cost, and used it arbitrarily. So, everyone was extremely opposed. At the same time, initially there also were three words: black, poor, and small. They said that the countries that we established relations with were all black people, poor countries, and small countries. Under these circumstances, if the foreign minister continued to openly do this sort of thing, he certainly would receive extremely severe public censure. This is not advantageous to the government. The second point is that you certainly noticed that four years ago, our cross-strait relations with the mainland were just beginning. So, we hoped that the mainland could improve its cross-strait policy step by step in accordance with the "National Unification Outline" formulated by Taiwan. The two sides of the Strait would best not compete internationally as "Santa Clauses," mutually undermining. We certainly very much hoped that the Chinese mainland would abandon its "zero sum," all mine and none of yours game. Since we hoped that the Chinese Communists would change, it was best not to provoke them. If we constantly went to establish relations with a great many countries in 1990, 1991, and 1992, it could provoke them. Based on these two considerations, we slowed down a little at that time. The countries with which we had diplomatic relations remained at 29 during that time, and none was added. You might also notice that since the Chinese Communists established relations with the Republic of Korea, we began to develop relations with Nigeria and when the Chinese Communists established relations with Lesotho, we developed relations with Burkina Faso. We could not

bring ourselves to do things injurious to cross-strait relations. So, I am afraid that Vice Chairman Su's statement is made from this perspective. But in these four years, (As of today I have been foreign minister exactly four years.) in the four years we have promoted cross-strait relations and have not seen that the Chinese mainland authorities have relaxed even a little bit toward us: very severely sealing us off on the United Nations (UN) issue; organizing many hypercriticisms of us in Asia-Pacific economic agreements; and undermining bilateral relations with every country. Under these circumstances, wherever they exerted the utmost effort to open them up, if we did not do it, the consequences would be unimaginable! So, the cross-strait diplomatic truce has its limits. As for now, if the Chinese Communists continue as they have for the past two or three years, especially in the diplomatic sphere, there is one point that I must explain to you. Our public opinion is now slowly leading us in a new respect. Compared with four years ago when I first became foreign minister, everyone is slowly changing his opposition to the concept of establishing diplomatic relations with black, small, and poor countries. This is related to our participation in UN activities. Everyone understands that if we want to succeed in participating in the UN, we must have the support of a considerable number of countries, and they must have the right to vote. No matter how big or small the country, it is one vote. We only have hope if we have the support of a certain number of countries. Certainly of the 183 countries presently in the UN, we do not necessarily not have to get 92 votes, and some say 122 votes. We do not necessarily have to get to this number for it to be sufficient, but we must acquire numbers. We cannot have 29 as now, and four of the 29 are not members of the UN (laugh)! So, with 25 there is absolutely no hope of our entering the UN. We must always let the numbers slowly go up. So, in answer to the question that you just asked, in the future, unless the mainland Chinese authorities can, in accordance with the National Unity Outline that we have proposed, not adopt a hermetically sealed attitude to us on diplomatic relations and adopt a "zero sum" method, I am afraid that in the future we will actively strive to establish new diplomatic relations!

**Reporter:** The last issue is that everyone knows that these years Taiwan is facing very great difficulty on the matter of entry into the UN and the "Democratic Progressive Party (DPP)" is bringing up a great many proposals regarding policy. But it is easy to say these things, but difficult to do them. May I ask, in the four years that you have been "foreign minister," how have you felt? How are you progressing in this direction? [passage omitted]

Ch'ien Fu: First you must understand that the "DPP" undoubtedly advocates entering the UN, but their methods are extremely dangerous. That is: a plebiscite, declaring independence, and requesting entry into the UN as a new country. If we do this, it could become an extremely serious factor in cross-strait relations. It could make cross-strait relations very unstable and greatly

exacerbate confrontation. So, to tell the truth, before the "DPP" called loudly for entry into the UN, our government and ruling party had already actively begun to work on it. In June 1991, Kuomintang (KMT) members of the "Legislative Yuan" first passed a resolution demanding that our government actively promote entry into the UN. The "DPP" did not take this as a slogan until the "Legislative Yuan" election in the latter half of 1992. So, we were a full year ahead of them! So, actually in accordance with the resolution that our "Legislative Yuan" passed in June 1991, in September 1992, that is to say before the December election, we already had the heads of state or foreign ministers of nine countries speak for us in the UN General Assembly and tell the UN that all the "mini" countries had entered and there were only some ten countries remaining in the whole world that had not entered. Of these some ten countries themselves, some did not want to enter and all the rest had populations not exceeding 10,000 or 20,000 and were incapable of entering the UN. Only one, the "Republic of China," had a population of more than 20 million people, thirteenth in the whole world, and at that time it was fourteenth in trade figures and was the twentieth economic power in the whole world, was a GNP force, and had the highest total foreign exchange in the whole world. To exclude such an important country from the UN would not be good for the UN. So, in 1992 there already were nine countries. Then, last year seven Central American countries made a formal proposal. This proposal you should understand was a very soft proposal, a very neutral proposal. The proposal did not run up against any of the rights and interests that the Chinese mainland currently has in the UN. China would continue as a permanent member of the UN and it would absolutely not run counter to the membership of the Chinese Communists, unlike the Chinese Communists' earlier measures toward the "Republic of China." That was eradication and extreme oppression! The proposal of these seven Central American countries was very mild. All of the Chinese Communist rights and interests were totally protected. The second point is that it acknowledged that eventually China would be united, but unfortunately China is now divided. Taiwan does not bother about the mainland and the mainland does not bother about Taiwan (laugh). This is fact. If you ask anyone in the world, "If I want to go to Taiwan, is it all right to go to a mainland embassy to get a visa?" It is not all right. On the other hand, if you want to go to travel in the mainland, there is no use in going to a Taiwan embassy or legation to get a visa! If you have a commercial dispute here, there is no use approaching that side and if you have a commercial dispute with that side, there is no use approaching that [as published] side! So, this is the current situation. In the past 40 years, in the first 40 years, the two sides did not deal with facts. Both said, "Ours is the only legitimate government of all China." In the past four years, we have dealt with facts. We say, "Now we can only effectively manage Taiwan, P'enghu, Chinmen, and Ma-tsu. There is another political entity on the mainland...the Chinese Communists.

We do not bother about (the mainland). So, we do not interfere in their international activities. On the other hand, the Chinese mainland still does not deal with facts. President Lee has spoken of this. In these 40-some years has there been one day that they collected a penny in taxes in Taiwan?! In 40-some years have they ever set foot on Taiwan?! They have not! On what do they base their representing our 20 million Taiwan people?! On what do they base speaking for us internationally?! What are their qualifications? They have no qualifications. So, these 20 million people have no one to speak for them internationally! So, these seven Central American countries say that under these circumstances, it should be compared to the parallel representation of divided countries in the past. But they [mainland China] will by no means agree. So, the Central American countries say that this issue should be studied by the UN General Assembly—assigning several countries to form a committee to study it with the result proposed to a later general assembly. This is a very mild method. First, it does not eliminate the Chinese Communists; secondly, it adheres to one China; and thirdly, it does not have a pre-established stand, it does not say that the study committee must give us a certain result. Any result is possible, it is just that this issue exists and must be studied. But the Chinese Communists will not even permit this type of proposal! So, now the problem is that the Chinese Communists want to seal us off everywhere. But this method is not very smart. Now more and more countries in international society understand that it is not right for us not to participate in international affairs, especially now when there is a need for the help of a great many economic powers. Countries including the Chinese mainland are pressing us to go there to invest, pressing us here to go and invest (laugh). Without our help, there would be no way to solve a great many problems." Yesterday a United States senator said, "Now UN Peace Keeping Operations are wanted everywhere. The 'Republic of China' is a very powerful nation. It is not only an economic power, it also is a pretty big military power, and it would be glad to help. Why do we not let it participate in the UN?!" They asked the United States ambassador to the UN and she did not answer. She could not answer! So, I say that our participation in the UN now is by no means a simple task. It is a very hard task. It is a task with a high degree of difficulty. But it is a just task. It is a human rights task. Why is it just? I just said that the people of every country in the whole world have people representing them in the UN, only we do not. This does not conform to the principle of universal membership in the UN. The Chinese Communists cannot represent Taiwan's 20 million people. They have not made any connections here! Secondly, it is a human rights issue, because the UN is now dealing with a great many matters, including the status of women and minorities. The whole world should sign conventions and we also should sign. Our women do not have credentials to participate in next year's world women's summit conference. Does this not damage these women's human rights?! There are a great many environmental issues. If

you do not participate in the convention, in the future you cannot export your products. Does that not damage the rights and interests of businesses here?! So, we say that our having no way to participate in the UN is an issue of justice, a human rights issue. This world must pay attention and face up to this issue. [passage omitted]

**Reporter: But as regards the UN, if you use a name such as the "Republic of China (on Taiwan)," I remember the previous time that the seven Central American countries made a resolution in the UN, a great many countries considered this name very strange, because how could one country have two names?**

**Ch'ien Fu:** In the past one country had several seats. It is not a new thing. When the UN was established, the Soviet Union had three seats, the Soviet Union, Ukraine, and Belorussia; the present South Korea and North Korea; and in the past East Germany and West Germany and South Yemen and North Yemen all were one country with two representations. This resolution of the seven Central American countries was a mild resolution. It did not make any definite conclusions about anything. What it requested was that Taiwan's 20 million people without a voice is not right and we should think of a way to help them resolve it. It by no means said how it had to be resolved, and it did not make a determination regarding a name.

**Reporter: So, there is no timetable?**

**Ch'ien Fu:** There is no timetable. It only advances the hope that a committee will be organized to report to the next general assembly, that is all.

**Reporter: So, does the Taiwan government have a timetable?**

**Ch'ien Fu:** We certainly hope that it is resolved the earlier the better, but essentially this is a matter of winning sympathy and winning support, and a great many countries take great exception to China's being a permanent member of the Security Council. So, there is no way for us to say that it certainly can be completed by next year or the year after. Do not forget that from the time that the Chinese Communists established their regime on the mainland in 1949, it caused trouble for 22 years until it finally entered the UN in October 1971. It also caused trouble for 22 years! [passage omitted]

**Reporter: So, how do you plan to enter the UN external organizations?**

**Ch'ien Fu:** The UN's so-called external organizations are eighteen special organizations, and now it is possible that a nineteenth special organization, the World Trade Organization (WTO), will be established soon. It is the next incarnation of the General Agreement on Tariffs and Trade (GATT). In the future, GATT will become WTO. We and the Chinese Communists both actively participate in GATT, and we hope that we can soon enter GATT. If we can join before the WTO is established next January, we can become charter members of

WTO. In addition, we also certainly hope that we can participate in some international financial organizations, such as the World Bank, the International Monetary Fund, the International Finance Corporation, and the International Development Association at an early date. These organizations are not completely the same as other UN special organizations, because they adopt weighted votes. That is to say that the more stock that a country has invested the greater the weight of a country's vote. So, the six countries of the United States, Britain, France, Germany, Japan, and Saudi Arabia constitute about 40 percent of the voting power in these international financial organizations. So, if we find another 10 percent or so we can go over half. If we want to enter, these should be much easier than other international organizations.

### **Poll on Prospective Presidential Candidates**

**94CM03504 Taipei TZULI WANPAO in Chinese  
12 Jun 94 p 2**

[Article by Tsou Ching-wen (6760 2529 7186) and Lin Ch'ang-yao (2651 7022 3852): "Over 50 Percent Support Li Teng-hui as the KMT Candidate for Reelection as President, While DPP Candidate P'eng Ming-min Is Temporarily in the Lead, With Lin Yi-hsiung Close Behind"]

[Text] Who is the best candidate for democratic election as president [of Taiwan] in the eyes of KMT leaders at all levels? A recent opinion poll conducted by TZULI WANPAO finds that over 50 percent of the public representatives polled favor President Li Teng-hui for reelection, with the strong support for him eclipsing his strongest KMT opponent, Judicial Yuan President Lin Yang-kang, and even leaving Premier Lien Chan, regarded in political circles as the designated choice for successor, in an uncertain situation and losing momentum.

While the sincerity of the succession struggle has always been the biggest question of the KMT opposition to Li Teng-hui, KMT public representatives with a popular base obviously do not question it.

This poll was of KMT legislators, provincial congressmen, and Taipei and Kaohsiung congressmen on which presidential candidate they supported for the next term, with the results of the poll conducted from 2 - 9 June 1994 showing that of 169 valid samples, 91, or 53.84 percent, support Li Teng-hui as presidential candidate, with five, or 2.9 percent, recommending Lin Yang-kang, and only one favoring Lien Chan. But 59, or 34.91 percent, will support the candidate nominated by the party, with 13 others in the categories of undecided or other.

Except for the comparative gap among all possible candidates, it merits notice that of the 24 Kaohsiung congressmen polled, 21 expressed support for Li Teng-hui, for the strongest consensus in southern Taiwan, with

the other three also favoring submission to the party's decision, leaving Lin Yang-kang and Lien Chan seemingly with no box office there at all, both out in the cold.

With Li Teng-hui generally favored by all public representatives, the Legislative Yuan [LY] showed an interesting phenomenon, with 31 of 72 polled legislators supporting Li Teng-hui, but 31 also simultaneously supporting the candidate nominated by the party, so that the nomination results in the LY's position-declaration culture seemed to have an absolute impact.

Of the five polled who recommended Lin Yang-kang, while three were legislative committee members, only one, Ch'en Chih-pin [7115 1807 1755] from Nantou County, was willing to sign on openly, with one provincial congressman and a Taipei congressman expressing support in unsigned form, showing that in the current political climate, any public representatives who would express clear support for Lin Yang-kang would probably have to be quite "brave."

And the one who supported Lien Chan as candidate was a provincial congresswoman who was unwilling to sign her name. Except for the three of Li, Lin, and Lien, in this open-style poll that did not list choices, other KMT figures were temporarily not evaluated as presidential candidates by those polled.

In addition, it merits emphasis that nearly 35 percent supported the candidate nominated by the party, mostly those holding party posts, showing that the party's iron-clad voting bloc still constitutes quite a percentage. While this also implies that a certain number might at any time switch their votes to Lien Chan or Lin Yang-kang (if they were nominated), the vote gap is too large to impact Li Teng-hui's decisive stance.

And who is the presidential candidate currently supported by DPP public representatives? The opinion poll conducted by TZULI WANPAO of DPP legislators, provincial congressmen, and Taipei and Kaohsiung congressmen finds that former Taiwan U Professor P'eng Ming-min [1756 2494 2404] is temporarily in the lead, with former Provincial Congressman Lin Yi-hsiung [2651 5030 7160], Chairman Shih Ming-te [2457 2494 1795], and former Chairman Hsu Hsin-liang 6079 0207 5328 all close behind. But as those undecided, ready to accept the party's candidate, or unwilling to respond make up nearly one-half, there is still much space within the party for those contending for the role of presidential candidate.

Of the polled 44 legislators, 13 provincial congressmen, and 17 Taipei and Kaohsiung congressmen, 68 responded, with P'eng Ming-min winning the support of 13, Lin Yi-hsiung supported by nine, Shih Ming-te supported by six, Hsu Hsin-liang supported by four, Independent Alliance Chairman Chang Ts'an-kung [1728 3503 STC not available] supported by three, and even President Li Teng-hui also receiving one vote, with 38 undecided, ready to accept the party's candidate, or unwilling to respond.

Of the polled legislative committee members, P'eng Ming-min was supported by eight, coming in first, with Shih Ming-te next with the support of four, Lin Yi-hsiung and Hsu Hsin-liang each supported by three, and Li Teng-hui's one vote coming from legislative committee support. But 25 still did not take a stand.

In analyzing the legislative committee factions, P'eng Ming-min's supporters were legislative committee members from factions, such as the U.S. faction, the justice joint-front, and the welfare-state joint-front, as well as overseas returnees concentrated in the new faction, such as Hsieh Ts'ung-min [6200 5115 2404], Chang Hsu-ch'eng [1728 2485 2052], and Lin Yi-hsiung, with Shih Ming-te's support coming from the welfare state and new factions, and Hsu Hsin-liang's votes from the U.S. faction.

Among provincial congressmen, P'eng Ming-min was supported by four, still first, with Lin Yi-hsiung supported by two, and Shih Ming-te by one. Among Taipei congressmen, P'eng Ming-min received no votes for the first time, with Lin Yi-hsiung winning the most at four, and Shih Ming-te and Hsu Hsin-liang each supported by one. Among Kaohsiung congressmen, Chang Ts'an-kung took three votes and, while P'eng Ming-min won only one, none of the others won any at all.

As to votes won from legislatures at all levels, P'eng Ming-min was the winner among legislative committee members and provincial congressmen. Lin Yi-hsiung's support was dispersed in that, except for in the Kaohsiung legislature, he was just an average votegetter. While Shih Ming-te is a legislative committee member, he won only one more vote in the LY than Hsu Hsin-liang, obviously not showing any "geographic advantage." And all three of these candidates were "in a state of no box office" in Kaohsiung.

Still non-DPP members P'eng Ming-min and Lin Yi-hsiung took the top two places in this poll, with the few DPP candidates with close factional relations not receiving many votes, showing in a certain sense that those in DPP factions, as to consideration for presidential candidates, were probably considered beyond factional lines on individual terms. But this might also be due to the presidential-election rivalry not yet having entered the close-fighting stage, so that factional operations are still under-the-table. But when the official contenders come out in the open, it is feared that factional rivalry will resurface.

#### New Phase of KMT Innerparty Power Struggle Viewed

94CM0349A *Taipei HSIN HSIN WEN /THE JOURNALIST* in Chinese No 373, 7 May 94 pp 22-23

[Article by Szu-ma Wen-wu (0674 7456 2429 2976): "Kuomintang Enters New Power Struggle"]

[Excerpts] [Passage omitted] The old and decrepit Central Headquarters of the Kuomintang (KMT) acted as a

symbol of the KMT during their period of high authority in Taiwan. Its dismantling, moving, and rebuilding, from the perspective of the Parkinson's law described above, would also seem to symbolize the decline of KMT power. At the convening of this KMT Central Committee provisional meeting, the spirit was vastly different than in past years. Some jokingly called it the "approaching the end meeting." But observing its results, although the KMT declined, Li Teng-hui seized party power and the nonmainstream faction was routed. In fact, it can no longer be called a "faction."

The main points for revising the constitution proposed by the KMT, with the exception of the direct popular election of the president, all lacked a long-range and complete plan. The decision advocating limiting central delegates' exemption of responsibility for speech was especially rough and perfunctory.

The issue of changing the countersigning authority of the president of the Executive Yuan was essentially unintelligible to the average person. What Hao Po-ts'un had to say at the meeting appeared to be clearer and easier to understand than what the constitutional scholars said. But even Lin Yang-kang [2651 3152 3263] recognized that its effect on actual authority would not be great. Moreover, the possibility of this issue's becoming a problem arose from Hao Po-ts'un's appearance in the political struggle. Hao Po-ts'un is an interested party. It is still fresh in everyone's memory and his persuasive power is greatly discounted.

The nonmainstream faction at this Central Committee provisional meeting were all fighting individual battles, each firing their own artillery. Mutual covering was not brought up, much less combined warfare. This situation was quite different from the spirit of being ready to fight and collective opposition of the last few years.

Casting aside personal gratitudes and grudges, the nonmainstream faction's aversions toward Li Teng-hui can be summarized in two points: the first point regards ideological issues, and the fear of an independent Taiwan and Taiwan independence. The second point is uncertainty about the future, and doubt whether Li Teng-hui can cover it. [passage omitted.]

The leaders of the nonmainstream faction are not in position and have lost their forum. Some of them are old and decrepit and cannot get their spirits up. Some have tasted power and some have received quite a few lessons. They have almost completely withdrawn from the inner-party ideological battlefield. Most only think about benefitting from the game of allocation of power. Otherwise they can only place their hopes on continuing the struggle in a new party or new alliance.

Actually, from the beginning, the non-mainstream faction's massing was the combination of various contradictions. First, this combination principally of leaders ran counter to the democratic trend. Second, their ideology was out of tune with the mainstream thinking of

Taiwan society. Third, there originally were complicated historical gratitudes and grudges among them. Once they were tested, new enmities and old hatreds emerged. Fourth, the old, middle-aged, and young generations had an intense generation gap. Fifth, each person had different motivations and interests and different goals and methods. On the surface they were quite united, but underneath they all had closed minds.

With this background, the non-mainstream faction bounced back three or four times. Nowadays it is as if they are "making a vigorous effort, then weakening, and are finally exhausted." Now they are weakened and exhausted. This is the objective situation. The fact that the leaders support the direct popular election of the president proves this.

The routing of the nonmainstream faction in the KMT power struggle is by no means a victory for the mainstream faction, because the KMT essentially does not have any mainstream faction. It only has people in authority, and they close ranks around whoever is in authority. The weakening and exhaustion of the nonmainstream faction undoubtedly could reduce the ideological political struggle, but the struggle for allocation of authority that replaces it could be more intense.

The extent of incompetence of the KMT party affairs organization can be seen from the process of dismantling and moving the party central headquarters. Even in this matter they all were at a loss what to do, without any order. "Only talent can recognize talent." If you use third rate managers, you must seek fourth rate affiliates. Recently the KMT party affairs personnel were like this. They were being weeded out, prepared for retirement, and had problems. Instead they came back one after the other. Li Teng-hui says that the KMT is an old shop newly opened. But the shop that Hsu Shui-te [6079 3055 1795] is responsible for still is lethargic. Every time it recovers, it is exactly the opposite of what Li Teng-hui says. [passage omitted]

Any true talent regards the party headquarters as dangerous. This total investigation of election bribery cases deals an even greater blow to party worker morale. For this party that does not conform to the times and also is hard to reform, allowing it to rot and die a peaceful and happy death appears to be the best end. Seeking a good but useless secretary general to cause it to feel no pain in its slow death is not a bad way.

The upcoming gubernatorial and mayoralty elections are a very great confrontation of the state of internal power of the KMT and the Democratic Progressive Party (DPP). Now within the DPP, they are lining up their troops for this power allocation. But the factional strife within the KMT early on has shifted from the upcoming gubernatorial and mayoralty elections to open another true battlefield. [passage omitted]

**Biographic Data on DPP's 'Mr. Clean'**

94CM0276A *Taipei TZULI WANPAO* in Chinese  
27 Mar 94 p 2

[Article by Correspondent Ch'en Shan-jung (7115 2619 2837): "Politically Scrupulous and Incorruptible Ch'en Ting-nan (7115 1353 0589) Speaks His Mind"]

[Excerpts] [passage omitted] At a time when public opinion is condemning vote-buying, claiming it destroys the country, the convener of the Democratic Progressive Party [DPP] panel, Ch'en Ting-nan, is taking reports and hearing testimony on election bribery. Ch'en Ting-nan resoundingly informed everybody that the DPP is also guilty of election bribery, but that it stands for resolute "eradication of this poison."

Ch'en Ting-nan, who is not part of any faction within the DPP, is widely lauded for his achievements while in charge of the Ilan County government, and is a scrupulously clean upholder of the law. He opened the door for Taiwan's opposition camp to begin some introspection. Chastened members of the DPP denied it and cried foul, but the broad masses of people shouted praise. [passage omitted]

He belongs to no faction, so he carries no baggage. He does not lust for power, so he can make honest criticisms. Able administrator Ch'en Ting-nan, who is now demonstrating his outstanding qualities for the first time in the "collegiate bench system" lies awake at night thinking. He has cleansed anew the DPP, a party whose power derives from local sustenance, and he has also rewritten a footnote for self-examination and introspection.

A graduate of Taiwan University's legal department, this legislator who was born in Sanhsing Township in Ilan County in 1943 established a rare honesty and earned a high reputation in government during his eight years as Ilan County magistrate. He dissolved the Ren-er [0086 0059] Office, burned "loyalty" data, eliminated the singing of the national anthem in movie theaters, boldly refused permission to set up six light industrial plants, harnessed the Tongshan River, and cracked down on environmental polluters. In the process of leaving his footprint on government administration, he refashioned an environment without dogmatism, without political pollution, and without a sense of guilt. His eight year stewardship enriched the humanity of the Ilan Plain in northeastern Taiwan, and it also ruined his health. Because he tried to do so many things personally, he was forced to recuperate from exhaustion on several occasions.

In 1989, he was elected legislator by a wide margin. Though not outwardly a member of a political party, he was inclined by nature toward the DPP. He entered the DPP, but did not become member of any faction in it. He frequently delivered impassioned speeches in the legislature, but he usually avoided party controversies, keeping his own counsel. Usually regarded as a loner, no

sooner had he relinquished his administrative leadership duties than Ch'en Ting-nan considered playing a role in the Legislative Yuan's "collegiate bench system."

In the overall political scene, his statements sometimes seem trivial, but actually they have substance. He has his own political views, but he does not quarrel with others about them. Consequently, though one may not find Ch'en Ting-nan to be confrontational in the legislature, one can sense that he is there.

During the era of the Hao Po-ts'un cabinet, Ch'en Ting-nan battled Hao Po-ts'un without hesitation in six major interpolations on matters ranging from America's Dwight Eisenhower to Romania's Nicolae Ceausescu, East Germany's Erich Honecker, and Uganda's Idi Amin. Every time Ch'en Ting-nan encountered Hao Po-ts'un, he tried to brainwash him with the independent sovereignty concept of "Taiwan first," the two of them jousting back and forth. When Ch'en Ting-nan is on the rostrum, he always expresses a principle. Possibly Ch'en, who likes to see movies and listen to music, might be holding forth on independent human culture and political accomplishments, but every time he spoke he exceeded the allotted time; thus diminishing his impact somewhat.

In 1993, Ch'en Ting-nan entered the DPP under the sponsorship of Hsu Hsin-liang [6079 0207 5328]. This could be considered a formal giving of himself in marriage to the DPP. Ch'en Ting-nan, who had maintained a "nonparty" image for more than a decade in government, did not deny that he was inclined toward the DPP. Nevertheless, asked countless times why he did not join the DPP, he said that he could not stand that kind of rough-and-tumble life. The DPP members of the Legislative Yuan several times "resolved" to get him into the party, but he did not budge. Finally, it was he who took the initiative in saying he wanted to join the DPP. This was something he really wanted to do, but also something he insisted doing on his own terms.

Ch'en Ting-nan is not adept at socializing and entertaining. He is "scrupulously politically clean," and he loves cleanliness. This scrupulous cleanliness makes him a political figure with rare political and personal attributes. In the Legislative Yuan, he might propose a "supplementary resolution" about some minuscule budget item. Within the DPP bloc, he could have held three directorships, but as soon as anyone else contested a position with him, he demurred. When units in the executive branch invite him to dine, he refuses.

He has personally written bills and supplementary resolutions, and he has even stuck category labels on the budget book. This shows his diligence, but it is also one of the reasons he wore himself out physically. The DPP bloc of legislators back him because he is generous to others and seeks no special favors. He does not belong to any secondary bloc. Because he does not care to bond with groups or the party, he is on very good terms with

Yeh Chu-lan [5509 5468 5695], Tai Chen-yao [2071 2182 5069], and other legislators who lead clean lives.

This son of the Ilan Plain looked forward to having the authority of an officer of the law, but his service as a Taiwan Garrison Command martial law reserve officer brought home to him judicial realities, demolishing his dreams of someday running a "big Nuremberg Trial." When the 1979 Meili Island incident occurred, which brought calamity upon Lin I-hsiung [2651 5030 7160], he was jolted out of political complacency. From this time on, he followed a tortuous political road.

The Ilan whirlwind moved northward. During the county magistrate and city mayor elections of 1993, Ch'en Ting-nan stumped the whole island by making speeches in support of candidates everywhere. He returned to Ilan to assume personal command only after Yu Hsi-k'un [3266 6932 1024] called for help. Once Ch'en Ting-nan, who has great name recognition, joined the DPP and went all over the island giving speeches in support of candidates, people began to wonder whether he might run for provincial governor. During the recent corruption investigation case, DPP personnel in Kaohsiung County even accused him of wanting to replace a certain person, thereby making the mistake of confusing his political standing with his personal standing. Nevertheless, one should not ignore his aspirations. To apply political chicanery in judging how Ch'en Ting-nan will handle the investigation of this bribery matter is to fail greatly in understanding the kind of person Ch'en Ting-nan is.

### Study Shows PRC Market Limited For Taiwan Products

94CE05654 Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 6, 1 Jun 94 pp 62-63

[Article by Mei Chiao (5019 0294): "Mainland China Is Not Taiwan Merchants' Paradise—A Taiwan Professor's On-the-Spot Investigation"]

[Text] The post-economic-reform markets of mainland China are very attractive to Taiwanese entrepreneurs, but an on-the-spot investigation conducted by Taiwan University professor, Hung Ming-chou [3163 2494 3166], shows that business opportunities in Mainland China are far less attractive than what Taiwanese merchants imagine.

Hung Ming-chou, assistant professor at Taiwan University's Graduate School of Business, recently went to the mainland to conduct an on-the-spot investigation in an effort to learn more about the mainland markets. Mr. Hung went to Shenzhen, Guangzhou, and Shanghai to interview Taiwan entrepreneurs who already have investments in the mainland and studied the mainland's purchasing power, market sales channels, and operating cost. He has come up with some disturbing new viewpoints.

### Over-estimated Mainland Purchasing Power

The average mainland citizen's annual income is equivalent to about \$400. This fact has often been forgotten by

Taiwan entrepreneurs who often use Taiwan's purchasing power to estimate market sales in the mainland, or they generalize the extraordinary purchasing power of a handful of people, mistaking that for the mainland's huge purchasing power.

When Taiwan merchants calculate the mainland markets' purchasing power and make their product decisions, they often take the annual income to be as high as \$5,000. This is more than 10 times the actual income. Based on this kind of over-estimation, Taiwan merchants have raised their product prices. For example, the price of a lady's garment may be set at 1,800 yuan renminbi [Rmb], which is equivalent to several months' wages for an average worker. That is why sales have been sluggish.

### Only One in a Hundred Thousand Is a Customer

Like their U.S. counterparts, whenever Taiwan entrepreneurs talk about the mainland markets, they immediately think of China's population of 1.3 billion people, and if only one in a thousand becomes a customer, one can sell 1.3 million pieces of whatever product one is selling. Mathematically, this is correct. Yet, in doing real business, getting one person in a thousand to become a customer is not an easy matter.

Hung Ming-chou points out that, first, 90 percent of the 1.3 billion people will not become your (Taiwan entrepreneur's) customers, and of the remaining 10 percent, 99 out of a hundred will not be able to buy your product (because the mainland is vast in area and lacking in transportation and business channels.) Of the remaining possibilities, half will not be interested in your product (for example, they may not think that your product is prestigious enough,) and of the remaining ones, 90 percent will not be able to afford your product (the price is too high relative to the income of an average mainland citizen.) Thus, only five in a hundred thousand mainland citizens may consider buying your product, and they may have to wait six months to a year before they can make a purchase. Therefore, in a given year, your market may be limited to approximately one in a hundred thousand people. This is one hundred times less than the one in a thousand we first figured.

### Going After the Upper Crust Consumers Is a Mistake

Taiwan entrepreneurs believe that the mainland people prefer Taiwan products, and so long as the goods have a Taiwan label, they can raise the price, and therefore they all go the high-price route and try to get to the top tiers of the consumer pyramid. As a result, many Taiwan entrepreneurs are disappointed, because there are few customers at that level, and so Taiwan merchants cannot go into mass production to reap economies of scale. The small-volume production makes their production cost high, and they are forced to raise prices. When prices go up, the number of customers goes down, and this vicious cycle results in many products being shown but not sold; they just stay in the shop windows.

### **The Products Have a Short Life Span; Everything Costs Money**

The life span of products in the mainland markets is very short, incredibly short. This is something many Taiwan merchants cannot understand or believe. Many products may be popular this month; sales may reach a peak next month, but sales may stall the month after that. Many Taiwan merchants may try to get more merchandise to the market when they see something is selling well, but when the goods reach the mainland, it is no longer selling, and they are forced to cut prices. All that work is for nothing.

There are three reasons behind the amazingly short product life span in the mainland markets: One, mainland consumers like what is fashionable and tend to "blow hot and cold" when making purchases. Two, since reform, there has been an abundant supply of goods; there are domestic and foreign products, and the consumers have many choices. Three, competition has forced the entrepreneurs to make changes in order to attract buyers and cater to the consumers' needs; some even ignore pertinent laws and regulations to produce and sell counterfeits and use low prices to attract customers.

### **The Economic Systems Are Very Different At Opposite Sides of the Strait**

Professor Hung Ming-chou points out that what the CPC calls socialist market economy is in fact a strange form of market economy. Taiwan entrepreneurs will be mistaken and foolish to think that it is just like Taiwan's market economy.

He goes on to say that when one starts a company and does business in Taiwan, it is considered a God-given human right and is the natural thing to do. But in the mainland, this is considered a privilege, a special right granted by the government. The government yields a part of its "monopoly" as a "reward" to the privileged elements of its choice. Because this is a special privilege, there are many "tax outposts," and at each "outpost," a Taiwan merchant must "work miracles" or spend money to get past. The mainland's market economy is very

fragile; the slightest move by the Party Central Committee can send shock waves through the market. They still have not escaped from the law of "decontrol leads to chaos, chaos leads to clamp-down, and clamp-down leads to rigidity." The only reason the Taiwan entrepreneurs are making money in the mainland today is that they are "fishing in troubled waters"—they are taking advantage of the "confusion" in the market economy. Later, if the mainland tightens its policy, the Taiwan entrepreneurs may have to cough up all the money they make.

### **It Costs A Lot To Maintain the Taipei Living Standard**

To the Taiwan entrepreneurs, mainland prices many appear low, but in fact they are not. For example, a one-way bus ride only costs an equivalent of a little more than NT \$1; a bowl of noodles at a sidewalk stand is NT \$10. They sound cheap, but the fact is, few Taiwan businessmen doing business in the mainland are riding the bus to and from work or eating at the sidewalk stands. Most of them drive their own cars, stay at hotels, dine in restaurants, and shop in high-class stores. They cost a lot more than in Taipei.

### **The Mainland Is Less Efficient Than Hong Kong and Taipei**

According to Professor Hung Ming-chou, money spent on a company set up in Shanghai generates only 20 percent of the economic benefits of its counterpart in Hong Kong and 50 percent of that in Taipei. This is because Hong Kong has a good business environment; it has a well-developed communications system and is highly efficient. Taipei comes in second, and Shanghai is the worst. Shanghai is very congested, and there are traffic jams everywhere in the city; its telecommunications system is backward; even having a telephone installed is no easy matter. It costs a lot of money to set up a company in Shanghai, but little gets done each day, because many clients cannot get to the office because of traffic jams. One must wait all day in vain for the telephone company to come and install a phone, and as a result, nothing gets done. As for rent, Shanghai is at least four times more expensive than Taipei.

### Union of 2 Major Hong Kong Democratic Parties Viewed

94CM0346A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 293, 1 Jun 94 pp 28-29

[Article by Ho Li (0149 4539): "Two Major Democratic Parties 'Join in a Marriage' of Mutual Sympathy and Congruity of Ideas"]

[Text] The joint organization of the Democratic Party [DP] by the two major democratic parties, the United Democrats of Hong Kong [UD] and Meeting Point [MP], can be said to be a political "marriage" that marks the beginning of a new era in Hong Kong's 1997-related political scene. This was not a "reluctantly forced match" nor an "incongruous mismatch," but rather the result of mutual "free love, sympathy and congruity of ideas." Foreseeing stormy times in 1997, this pair of "lovers" are intent on jointly weathering the storm, "sailing in one and the same boat," as the saying is.

The UD-MP merger leaves out and excludes yet another also democratically inclined party, namely the Democratic Alliance for the Betterment of Hong Kong [DA].

In May, UD and MP held their separate general membership meetings, during which each resolved to jointly organize the DP. At the same time they passed a resolution on the request of the DA to join in the organization of the DP. At both general meetings it was resolved to reject admission of the DA as one of the founders of the new DP.

There have been many reasons for rejecting participation of the DA in the new party. The political line, standpoint, as well as past behavior of the DA have all been called into question.

As far as the political line is concerned, the main problem is how to confront the "doughty mandarins of the north," an issue in which the DA had given the impression of being rather "favorably inclined toward the Chinese side." The UD therefore indicated that the said two parties do not see eye-to-eye with the DA with regard to the political line toward the Chinese side. For instance, the DA believes that the Basic Law for Hong Kong, imposed by Beijing, cannot be amended until it takes effect in 1997, which is a standpoint which the other two parties cannot accept.

Members of the UD are also dissatisfied with the standpoint of the DA regarding the desired political system. For instance, in some of its discussions the DA had asked the UD to withdraw its proposal to have half of the thirty seats in the Legislative Council filled by direct elections. Both UD and MP believe that the DA, though eager to join the new party, has never indicated that it will dissolve after joining the new party, and by showing this kind of a wait-and-see attitude it differed in attitude from the other two parties. The said two parties also believe that allowing the DA to participate would impede the preparatory work for the organization of the new party.

On the question of having the DA participate in the preparatory work for the new party, three proposals had been tabled at the general meetings of the other two parties: 1) Allowing the DA to participate in the work of the joint merger committee; 2) Allowing the DA to send representatives to the subsidiary committees and work teams under the joint merger committee; 3) Allowing members of the DA to join as individuals any of the committees and work teams under the joint merger committee. The majority of the UD members voted against proposals 1 and 2, but in favor of 3. The majority of MP members voted against proposal 1 and in favor of proposal 3.

The DA pointed out that UD and MP, in excluding the DA from the formation of the new party, misunderstood DA, and that they were destroying the overall unity of all democratic parties by their discrimination against DA.

Actually, the UD-MP merger was for a long time already a foregone conclusion, and the exclusion of the DA also did not come unexpected.

Earlier, facing the oncoming 1994/95 elections to the three tiers of boards, the democratic parties had already started at the beginning of this year to coordinate their participation in the elections, hoping that such coordination would, as far as possible, prevent the participating candidates from clashing with each other in the same districts, their coordination was also supposed to better enable mobilization of manpower for mutual support. Both the UD and MP had each on its part shown a strong inclination to coordinate activities and cooperate with each other.

Apart from this desire to coordinate their participation in the elections, UD and MP had also been very close to each other in their political lines and standpoints. On the question of the reform of the political system, the bottom line of the two parties is the political reform proposal of Governor Patten. As to the attitude of the Chinese side, the two parties wish for dialog, but are firmly determined to maintain their standpoints. Quite different is the attitude of the Chinese side as it differentiates in its treatment of the two parties: In the case of the UD, it refuses all contacts and has firmly closed the door to all dialog. Toward the two leaders of the UD, Martin Lee and Szeto Wah, the Chinese side usually raises a cudgel against them in its public media. However, with MP dialogue is still possible, and at a much earlier junction, the Chinese side even appointed MP chairman Zhang Bingliang [1728 3521 5328] as Hong Kong Affairs counselor (this appointment was terminated when the two parties declared their merger). The UD and MP are the two large democratic parties in the Legislative Council (the UD has 13 seats, MP has 4 seats; the DA, on the other hand, is a "one-man party" in the Legislative Council). Experiences have proven that when the two parties worked together in the Legislative Council the two parties have had many views in common, their "marriage" is really one of mutual sympathy and congruity of ideas. Most of the members of MP are of a

"scholarly type" and rather rigid in their ideological viewpoints; they would certainly "disdain" being ceded into fellow travelers of the Chinese side.

In contrast, the DA's political standpoint is rather ambiguous, and people feel that particularly its attitude toward the Chinese side is somewhat "dubious." Especially the fact that the Chinese side had repeatedly "designated" members of DA to be appointed commissioners and advisors had people arrive at certain conclusions. Statements by some DA members and the personal integrity of some DA members, such as that of chairman Feng Jianji [7458 2914 1015] and Luo Xiangguo [5012 4382 0948], who recently joined the Chinese People's Political Consultative Conference, have become the subject of conjectures among the people. A variety of circumstances have made people feel that it would not be possible to include the DA in the present federation of democratic parties.

In past elections and by-elections, the UD, the MP, and the DA have all had their contentious "frictions" in certain districts, but that would not have been a critical factor impeding a union of the three parties. However, what stood in the way of having the DA join in the preparatory organization of the new party had been not only the reasons openly stated by the two parties, but also even deeper misgivings behind the scene: the DA's too "ambiguous" standpoint and its "dubious" ideology. Had the DA been allowed in proper organizational form to join the joint merger committee for the organization of the new party, it would in the end have asked for a share in everything. The prevailing sentiment would not have been one of "one heart and one mind," but rather like "having strange bedfellows dreaming different dreams." It would have amounted to constructing a wobbly stool of three legs that could not have withstood a gust of north wind, and one would have to be afraid that it would completely disintegrated with just a little additional pressure.

The UD-MP merger will definitely have a positive effect for the political group composed of these two parties and for Hong Kong's political development.

As far as these two parties are concerned, their coordination and cooperation will already bring them the benefit of supplementing each other's efforts at the forthcoming 1994/95 elections to the three tiers of boards. In these three tiers of boards, there are 360 seats of regional boards, and another 40, 50 seats of the two urban councils, and for direct elections to the Legislative Council there are only 20 electoral districts (because of the adoption of the one-seat, one-vote system, the electoral districts had been doubled). Every political party or political group has the problem of an insufficiency of rank and file and of "generals." Past elections and by-elections have shown that the UD has put on line all the personalities and talents it had, but the MP still has some "surplus." The UD has the advantage that its standpoint is already having a certain appeal among the

electorate. The MP's advantage is not in numbers, but in having many "scholarly types" among its members, an image that is well-liked by the electorate. After completion of the merger, the new Democratic Party will be in a better position to bring all these advantages into play.

In Hong Kong's political development, the arrival of the "northern Mandarins" is creating a rather unfavorable political atmosphere for democratic development and for democratic parties. Under these circumstances, it is even more necessary for the democratic parties to combine all their strength, because maintaining a sectarian "mountain-stronghold" mentality would only lead to their destruction one after the other.

The merger of the democratic parties is of course most offensive to the eyes of the "northern Mandarins." They had indeed first "counted their chickens before they were hatched," but then they again rescinded the appointment of MP chairman Zhang Bingliang before he was even officially appointed as Hong Kong Affairs advisor. Moreover, the "northern Mandarins" have long ago given to understand that in 1997 all the members of the three tiers of boards would be "detained." Since the 1994/95 one will be "the last train," and since detaining has already been determined, then let them make the best out of this train ride, and let us see how this "detaining" will take place. There are still three years until 1997, and it seems that the citizens of Hong Kong will have to cut off all means of retreat and use every minute to good advantage.

#### Emergence of New Political Parties Explained

94CM0321A Hong Kong TANGTAI (CONTEMPORARY) in Chinese No 38, 15 May 94 pp 8-9

[Article by Liao Chien-ming (1675 1696 2494): "If They Don't Link Up They Will Come to Grief—Huang Shao-lin Discusses Development of Political Parties in Hong Kong"]

[Excerpts] [passage omitted] Huang Shao-lin [7806 4801 0243] both an advisor on Hong Kong affairs and a lecturer-professor in the Sociology Department, Hong Kong University, thinks that, with regard to Hong Kong's development of a political system, its economic level, as well as its educational standard, it is to be expected that political parties will emerge in large numbers, and also that this is a healthy phenomenon. In particular, the regime is about to change, and in the process of decolonialization the middle class will be especially encouraged to participate in government and political affairs. However, the emergence of political parties in large numbers could encounter a major question: can the development and establishment of a political framework be coordinated? The experience of going back and forth to other places teaches us that it is not difficult to encourage participation in government and political affairs, but when the aspiration to participate in

these affairs goes faster than the establishment of a new political framework, unrest is caused.

Hong Kong has never had a problem of this nature, because the aspiration for participating in government and political affairs was controlled. The greater part of those who participate in government and political affairs know clearly that, in this political framework, in the future they will be unable to become the party in power and that they will only play the role of putting pressure on administrative authorities. In addition, the transition period is fairly long, and Hong Kong will not tend to become independent but will only change from a colonial political system to a local administrative structure. Therefore, it will only suffer a few hits, and there will not, because disputes become too heated, be hits against the framework that it cannot bear. [subhead omitted]

Huang Shao-lin obviously believes in the steady style of "following in order and advancing step by step," and he hopes the political system will not develop too rapidly. He thinks that once one becomes careless and has too high expectations, and conflicts become too sharp, there could be caused a situation in which the framework, which is gradually taking shape, cannot operate and then problems will arise.

Then, what is the situation in Hong Kong now? Huang Shao-lin sees some dangers. In the past China and Britain headed in the direction of making a smooth transition; although there were disputes, the Basic Law provided a rough framework and there were no sudden changes. However, a new situation has appeared in the contention between China and Britain, which wants to enhance democratic participation in 1995, and this move strikes at the newly established fragile system. In the past China and Britain tacitly agreed to control the Hong Kong people's morale; now there are factors for instability. The British side wants to go a little faster, and the Chinese side wants to slow down. Therefore, there are some dangers.

However, Huang Shao-lin does not think that the problem has become bigger, because as "1997" draws near the greater part of the people in Hong Kong will begin to face reality and want to maintain cooperative relations with Beijing, and so time is on the side of stability. He said, "If there is no big shock on the mainland, I cannot see the emergence of a strong anti-communist tide." [passage omitted]

As "1997" draws near the north's powerful pressure will be brought more and more to bear on the south, and it looks as if this will be unavoidable. Huang Shao-lin's thinking may be said to be extremely "realistic," and he has a "pragmatic" spirit. He pointed out that, considering the general trend of the times, the political parties must link up with the Chinese communists, and "if they don't link up then I fear their foundation will be eroded." This is a common understanding among the political parties. Therefore, Huang Shao-lin thinks that

the Hong Kong United Democratic Alliance is letting it be known that this is "the only option."

Another common point among Hong Kong's political parties is the striving for representation and place, and different groups hope to have representatives. Huang Shao-lun pointed out that the basis for each party's competition still makes primary the degree of its fame or political status, and there should appear a large-scale political party with a well-disciplined organization and a strong ideology. Both freedom parties and democratic parties are, in reality, political alliances.

All alliances want to expand. Their internal organization must be loose, because, although their social backgrounds are basically similar, they have their differences.

Huang Shao-lun reckons that in Hong Kong's future there will be a development in the direction of political organizations' forming alliances, with the degree of fame, and not the political platform, as the appeal. This is unavoidable, because the most a political party can do is participate in legislative procedures and be a legal opposition faction that is a check and balance on the government. Therefore, its political prospects are limited, and a powerful political party cannot appear. But Huang Shao-lun thinks this is a good thing, because if a powerful political party does not appear, for a time there will be no conflict with the Chinese communists, and this will be beneficial for Hong Kong. [subhead omitted]

Looking forward into the future, Huang Shao-lun sees more and more alliances appearing. There are two main reasons for this: first, the background and education of the greater part of the figures participating in government and political affairs are really quite similar; second, there are no special social problems in Hong Kong society, and social problems cause political parties to split up. Therefore, the fact that there do not exist basic ideological differences is advantageous to forming cooperation between alliances. In Hong Kong the only thing that can cause a drastic split is the China factor. Besides this, in Hong Kong the figures participating in government and political affairs have very similar views on the greater part of the issues concerning the people's livelihood, i.e., political issues. The difference between all of them is only in the degree of fame, what their relations with the Chinese communists are, as well whether they are fairly close to industry and commerce or to the grassroots.

However, if there are no major differences, there still exist minor differences. For example, the industrial and commercial circles worry that, under the new political system, their voice will be fainter, and they also don't believe that the freedom parties can represent them, so they will vigorously support political organizations that can represent them. But the industrial and commercial circles mainly give priority to central enterprises, and different groups do not unite, so they do not have a "dragon head" leadership; and, as in the economy, in politics there is competition between many groups.

Huang Shao-lun said that there are many hindrances to the participation in government and political affairs by Hong Kong's industrial and commercial circles, and they will not exert too much effort or personally support a certain political party in order to avoid provoking, because of their candor, aversion in their adversaries.

Although there seems to be more political parties each day, those of the middle class comprise the largest part, and the voice of the grassroots class is faint. Huang Shao-lun's analysis is that Hong Kong does not have a strong worker class consciousness, the most basic factor in this being the working people's hopes, which often are that their children will rise into the middle class. Therefore, high hopes for equal opportunities to rise into the middle class, and a strong attitude of "standing out among one's fellows," cause the non-appearance of strong grassroots political parties in Hong Kong. If there were to be a long-term economic recession in Hong Kong, class politics might be intensified for a short time. In addition, if there were a political need to avoid Hong Kong's spinning out of control, e.g., Hong Kong's taking the path of independence or Taiwan's stirring up a political storm in Hong Kong, the Chinese communists have the possible threat of mobilizing the grassroots, thereby "dispersing two foes with one blow." But the Chinese communists themselves also worry that once a disturbance occurs they will lose control. [passage omitted]

#### **'Alliance of Expatriates' Chairman Interviewed**

94CM0321B Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese No 38, 15 May 94  
pp 12-14

[Article by Liao Chien-ming (1675 1696 2494) and Lin Kuo-hsiung (2651 0948 7160): "Forming a Party To Safeguard Interests—Interview With Lin Kuo-hsiung, Chairman of the Alliance of Chinese and Expatriates"]

[Excerpt] Question: Who are the members of the Hong Kong Alliance of Chinese and Expatriates [HKACE]? Are there many of them?

Answer: We had 25 founding members, and now we have more than 30 members. We have a plan for recruiting members, but we have not set a goal on how many members we want. But we know that in Hong Kong the number of people holding foreign passports and of foreigners who have resided in Hong Kong for a long time is as high as 500,000. Therefore, the number of people interested in our party exceeds 100,000. More than half of our members hold foreign passports. Of course, our membership is not limited to expatriates; there are also Hong Kong people who have not emigrated to foreign countries.

Question: Why did you want to form a political party at this juncture?

Answer: The period of informal discussion on forming a political party was one year. Later, with the development

of some things, e.g., the problem of government employees "going native," after 1997 people who hold foreign passports could lose their right of Hong Kong residence, and in the future the Legislative Council could let foreign passport holders occupy 12 of its seats, etc., made us hasten the birth of our political party.

Question: If political parties are not formed, could interests be lost in the future? [subhead omitted]

Answer: You could say that. About 10 percent of the people in Hong Kong hold foreign passports, and most of them are members of the middle class, members of the industrial and commercial circles, and specialists. Economically, they exert a certain influence, but in politics they still have no organization to represent their interests. Therefore, the striving for political rights, without a doubt, was the main reason for our formation of a political party.

Question: It is still more than three years to "1997"; what is your plan?

Answer: To strive for representation we must participate in elections. We most probably will send people to participate in the municipal executive council elections in March of next year. As for participation in the district legislative council elections in September of this year, this would be too premature because we were formed in March. It is practically certain that we will take part in the legislative council elections in September of next year.

Question: What will be the prominent characteristic when you participate in the elections?

Answer: First of all, the distinguishing feature of our party is that it strives for the proper interests of the several hundreds of thousands of people who hold foreign passports. Next, we have our own analyses and opinions about some common problems that affect the six million people of Hong Kong, and these problems are not limited to those unique to expatriates; e.g., there is the soaring cost of building space.

Question: Other political parties early on stressed the issue of the people's livelihood. What superiorities do you have in this respect?

Answer: I don't agree with your way of putting it. What is called our issue of the people's livelihood cannot show our characteristic. Let me give you an example. The cost of building space is now soaring, and many political parties or organizations have proposed many countermeasures, e.g.: increasing the supply of land, increasing the value-added tax on property, decoupling the Hong Kong dollar and the U.S. dollar, raising interest rates, etc. We apply specialized knowledge to come up with countermeasures, because most of our members are specialists or industrial and commercial figures.

Question: Is the professional range of your members close to the mainland?

Answer: There is no special business background with the mainland. [subhead omitted]

Question: At present many people think that there must be links with the Chinese communists, and after relations are established the role of political parties can be played. How would you handle relations with the Chinese communists?

Answer: As a political party we have not sedulously sought special favors by forming relations with the Chinese side, because our main goal is elections, and what we are striving for is the support of Hong Kong residents. But personally we have friendly relations with the Chinese side's officials, e.g., the deputy director of the XINHUA NEWS AGENCY Office and the Chinese side's representative in the Sino-British Liaison Group. Before our political party was established, we presented notes to the XINHUA NEWS AGENCY and the Hong Kong government. Therefore, we also pay much attention to the question of linkage.

Question: What was the XINHUA NEWS AGENCY's reaction to the HKACE?

Answer: Neither being in opposition nor being particularly supportive. The Hong Kong government's attitude was similar.

Question: Is there a worry about how the Chinese communists will handle your foreign background?

Answer: I have never been afraid of this. The objective reality is that Hong Kong now has several hundreds of thousands of expatriates who hold foreign passports. And Hong Kong, which has been a British colony for more than 100 years, has a certain number of Britons and other foreigners who have settled down here. This is precisely Hong Kong's distinguishing feature—the essence of a good combination of Chinese and Western elements—and it is worthy of pride.

Question: Are you afraid that people will think you are trimming your sails?

Answer: If we were a major party there could be a need to trim our sails, because we could be the faction in power. But, frankly speaking, we will not become the mainstream in the Legislative Council, will not be the biggest royalist party or opposition party. Objective reality affirms that we cannot reach this point in a little over one year's time. Therefore, there is no need to worry about how to trim our sails in order to become the party in power, and no need to receive both the Chinese and the British sides. We fundamentally do not have a relationship of this kind of interest.

Question: What is your plan for the 1995 Legislative Council elections? Will you take as your point of departure direct elections or indirect elections?

Answer: We have not yet decided. Of course, other opportunities for our functional constituencies are large, because we have many specialists. After 1997 one of

Hong Kong's biggest worries will be how to avoid the influence of domestic political activity on Hong Kong. However, based on the new plan, there are more than 2 million voters in the functional constituencies, and this could be not far from direct elections. Therefore, we must see how our plan is implemented, as well as the dispositions of other political parties, before deciding.

Question: Have you considered forming an alliance with other people in order to expand your influence?

Answer: We have not considered merging or effecting hand-in-hand cooperation in order to contend for votes. Possibly we are being too idealistic; in not compromising in order to get votes, our sole purpose is to achieve the ideals of several hundreds of thousands of people. [subhead omitted]

Question: Many political parties feel that in the past there understanding of the mainland was inadequate. Now they want "to make up a missed lesson." What do you think is the degree of your understanding?

Answer: I estimate that our understanding of the Chinese mainland is quite high, and I myself go into the interior on a regular basis. As early as 1992, before Mrs Thatcher went to Beijing, I took part in a delegation of Hong Kong's legal circles that visited Beijing. The delegation members included: Li Chu-ming [2621 2691 6900], Liao Yao-chu [1675 3852 3796], Li Kuo-neng [2621 0948 5174], Ch'en Tzu-chun [7115 1311 6874], and Chien sung-nien [4675 2646 1628].

Question: Does the HKACE comment on mainland affairs?

Answer: We do comment on the mainland's internal affairs. This is because we implement the general principle enunciated by Jiang Zemin "river water does not contaminate well water"—do not interfere with one another. We think that after 1997 one of Hong Kong's biggest secret worries will be how to avoid domestic political activity's influence on Hong Kong. If we don't want the Chinese to influence us, then we first must not influence them. The foundation stone of "one country, two systems" is noninterference with one another. Therefore, a Hong Kong political party should not talk about the mainland's political affairs. If it does not do so, success cannot be guaranteed but the chances for success will be fairly high. It seems that many many political organizations in Hong Kong, and even the society as a whole, are sufficiently cautious about the spirit of "one country, two systems." [passage omitted]

#### Meeting Point Chairman on Impending Union

94CM0310A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 199, 1 May 94  
pp 87-89

[Article by anonymous CHENG MING reporter: "To Beef Up Democrats' Participation in Political Affairs—

An Interview With Meeting Point Chairman, Hong Kong Affairs Adviser Mr. Chang Ping-liang"]

[Excerpts] [passage omitted] Question [Q]: Since you have been appointed one of the third-batch advisers on Hong Kong affairs, you should have a "guaranteed" position in the political arena after 1997. Why do you still want to form a new party with the United Democrats of Hong Kong [UDHK], a "thorn" in China's side?

Answer [A]: First of all, I don't think that being a Hong Kong affairs adviser is a political guarantee. My own political career and the Meeting Point's political future both depend on support from the Hong Kong people in the democratic election and on their consent to our political platform. These are our most important guarantee.

As to why we want to form a new political party—the Democratic Party—with UDHK, everyone knows that the UDHK and the Meeting Point worked together in the 1980's in various social activities. For instance, both fought for political democracy and upheld human rights and freedom in Hong Kong. Both made positive contributions toward the goal of one country and two systems and a highly autonomous Hong Kong in the future. And both showed concern about China's overall development. Our orientation and goal are identical. As a matter of fact, the two independent parties have cooperated with each other in the past. Our directions were also similar in voting on issues concerning the people's well-being. As a result of our recent consultation, we believe that, by joining together, we will be able to further consolidate our force to participate in political affairs. In that case, the democrats will shoulder the political task from now till 1997 or even after 1997.

Of course, we know that the Chinese Government has reservations about UDHK. Matter-of-factly, our view about the political system is also quite different from that held by the Chinese Government. We hope that the Chinese Government will not refuse to make contact with UDHK just because it has a different view. [passage omitted]

[Q]: In addition to UDHK members, the list of the third batch of Hong Kong affairs advisers contains some moderate democrats, including members of the Meeting Point. These people are thus included in the scope of China's united front work. Now, you want to form a new party. Is this an "anti-united front" strategy?

[A]: From the standpoint of the Meeting Point or from my personal viewpoint, we will not let ourselves fall into the scope of the Chinese Government's united front work. Otherwise, wouldn't we become their tools? (laughter) We are a political organization based on Hong Kong society with independent judgment, and we have close relations with the people and a historical commitment. We stand for maintaining contact and holding dialogues with the Chinese Government because under the one-country two-system framework, Hong Kong

cannot avoid having a communicative relationship with Beijing. As to whether the Chinese Government likes or dislikes a political organization in Hong Kong, that is a matter of its own choice. For our part, we do not look at the question from the united-front-work perspective. Even if we have formed a new party with UDHK, there would be no such thing as the "anti-united front" goal. Our objective of forming a new party is to base ourselves on Hong Kong and mobilize and encourage more people to participate in Hong Kong's administrative affairs so that the ideal of "a Hong Kong administered by the Hong Kong people" can be realized after 1997.

[Q]: In the absence of a tacit agreement between China and Britain on the convergence [of the political structure before and after 1997] and especially under the present circumstances where the Chinese side has defined the UDHK as a reactionary organization aimed at "disturbing and opposing China," isn't it too optimistic that you want to form a new party with UDHK and hope the Chinese side will have contact with your new party?

[A]: Of course, the Chinese side may ultimately deny all its commitments. This possibility does exist. As for us, however, we should try to win the best result. Even if the Sino-British talks on the 1995 election breaks down, the 1984 Joint Declaration is still an agreement binding on China and Britain. The Basic Law also contains very explicit provisions in this respect. Even if the Chinese side denies the 1995 election arrangement and decides to enact new election regulations in 1997, this does not mean that the new regulations can ignore the guidelines contained in the Basic Law. Of course, we know that many Hong Kong people do not agree with the Basic Law. This is why we suggest that the Basic Law be amended as soon as possible so as to satisfy the democratic demand of the Hong Kong people. [passage omitted]

[Q]: It is said that the Meeting Point has chosen UDHK as a partner to form a new party because UDHK is known as an "election machine." The "joint voting effect" of the Meeting Point and UDHK in 1991 was very successful. So, the formation of the new party is the formation of a "relationship of reliance," isn't it?

[A]: As a political party, we have to consider the political-party factor, of course. In the formation of the new party, however, election is neither the only nor the most important factor we have considered. If we purely aimed at the 1994-95 election and hoped that we could get some seats in the legislature and act in concert with UDHK in the voting, all we need to do would be to act in the same way as we did in 1991, and it would not be necessary to give up the original organizations of our two parties. In forming the new party, we have a greater and more farsighted goal. We hope to further expand the pro-democracy force and further boost the political capacity of the democrats. We hope to lay a sound foundation for creating a good political condition after 1997.

[Q]: It is also said that, by merging with you, UDHK can take advantage of your friendly relationship with the

Chinese side to get rid of the years-old boycott from the Chinese Government. So this is a "merger based on interests." Do you agree with this comment?

[A]: I do not look at questions from the viewpoint of interests (laughter). Of course, I cannot speak for UDHK. As for the Meeting Point's friendly relationship with the Chinese side, I don't see how friendly it is. We only maintain normal communications. On many issues, we take a different view from that of the Chinese Government and even have dispute with them. Examples are the political system, the view on the "4 June" Incident, and the issues on the Basic Law and the Human Rights Act. We always insist that the Chinese Government should have contact with all political groups in Hong Kong. On the other hand, Hong Kong's political groups should also maintain contact with the Chinese Government. I hope this will also be the case of our new party in the future. Even at present, we hold that the Chinese side and UDHK should make contact with each other. It is unwise that the Chinese side refuses to do so. [passage omitted]

[Q]: After the merger of the two biggest democratic parties in Hong Kong, there will be a substantial boost in their strength. This will pose a threat to other political parties. The "leftist" papers have published articles criticizing the formation of the new party. Do you feel a pressure from them?

[A]: I don't feel the pressure. In politics, of course, everything you do will draw public attention. The merger of the Meeting Point and UDHK into a new party is a significant landmark in the development of politics and political parties in Hong Kong. We have seen the positive reactions from newspapers and from public opinion at large. They have pinned such high hopes on our new party that we feel compelled to live up to their expectations. As to the criticisms made by the "leftist" papers, we take them merely as a reference.

[Q]: Judging from the Chinese Communist Party's traditional concept, will it accept your "renovated" new party? If in the future the new party gains a great victory in the direct election, will the Chinese side become more determined to do away with the three-tier legislative structure?

[A]: As far as we have observed, the Chinese Government has never said that they want to influence the result of election (whether or not they will actually do so is

unknown; at least it has not openly said so). Every political party hopes to triumph in the election and to be accepted by the electorate whether it is the Meeting Point, UDHK, the Liberal Party, or the Democratic Alliance for the Betterment of Hong Kong. So the ultimate question is not which party subjectively hopes to win. Rather, it is the electorate's decision—this is the spirit of democratic election. After 1997, Hong Kong will carry out the one-country-two-system proposal. Based on the Joint Declaration and the Basic Law, Hong Kong should promote democracy—the Chinese side has never denied this goal. The Basic Law also states that Hong Kong will finally march toward the general, popular election system. In line with the spirit of the Basic Law, the Chinese Government should give Hong Kong what it has promised to give. I don't see any necessity for it to act against certain Hong Kong parties participating in political affairs. The "through train" [meaning that members of Hong Kong's last Legislative Council may become, upon confirmation by the Hong Kong SAR Preparatory Committee, members of the first Legislative Council of the Hong Kong SAR after 1 July 1997] issue is an abstract idea. In fact, the decisive power on mounting or dismounting the train does not rest with the Chinese Government, but is in the hands of the Hong Kong people. If you are elected, you are aboard the train. If in the next election the people feel you are no good and cannot play a positive political role, you will not be reelected; that is, you will be forced to step down from the train. This manifests the spirit of "the Hong Kong people administering Hong Kong."

[Q]: Is this merger of the two big democratic factions in Hong Kong aimed at winning more room for political activities after 1997?

[A]: Room for post-1997 political activities is not to be made by us—two democratic political organizations. Whether the political room will be expanded after 1997 depends mainly on China. In the late transitional period, the Chinese factor will have an increasing effect on Hong Kong's political room. Another factor, of course, is the tests of strength between China and Britain. If the Chinese Government's policy toward Hong Kong is based on the pragmatic spirit of seeking truth from facts and if it respects the development of Hong Kong's democracy, there will be more and more room for political activities, and a solid foundation will be formed for the development of Hong Kong's society. This will be good for China's overall development as well.

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